

The impact of development finance institutions on the growth of Small and Medium Enterprises in Windhoek, Namibia

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Abstract

Small and Medium Enterprises play a very big role in an economy by creating jobs and value addition. There is no universal definition of Small and Medium Enterprises. Despite this important role, Small and Medium Enterprises are faced by numerous challenges such as lack of access to finance among several others. To circumvent this challenge Namibia has developed Development Financial Institutions namely Development Bank of Namibia as well as Small and Medium Enterprise Bank to ease the access to funding. Development Finance Institutions are established to finance the projects or activities that commercial banks may shy away. The establishment of these two institutions is supposed to result in significant growth and increase of the Small and Medium Enterprises in Namibia economy. This study therefore investigates the impact of these institutions in supporting the growth of Small and Medium Enterprise.

The research used a case study research strategy that followed a descriptive-exploratory research design. The sample of eighty participants that were drawn from the Small and Medium Enterprises that were duly registered with the Ministry of Industrialisation, Trade and Small and Medium Enterprises Development. Data analysis was done by means of descriptive statistics such as tables, frequencies and percentages. Data analysis showed that, access to finance is a key obstacle towards the development of Small and Medium Enterprises in Windhoek as development finance institutions are approving relatively a small number of Small and Medium Enterprises.

Recommendations were also made in relation to what needs to be done to ensure that Small and Medium Enterprises grow and development in viable ventures. Thus, the paper therefore suggested that the loans should be more affordable for the Small and Medium Enterprises to acquire necessary equipment. The Small and Medium Enterprises also need to approach Development Finance Institutions to access funds available. The growth of the bank's loan book has showed a growth in access to funding among the Small and Medium Enterprises.

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List of Abbreviations

DBN	-	Development Bank of Namibia
DFI	-	Development Finance Institute
DFIs	-	Development Finance Institutes
GDP	-	Gross Domestic Product
MTI	-	Ministry of Trade and Industry
SME	-	Small and Medium Enterprise
SMEs	-	Small and Medium Enterprises

CHAPTER 1

INTRODUCTION

1.1 Introduction

Worldwide studies acknowledge that Small and Medium Enterprises (SMEs) are crucial agents of development (Chiware & Dick, 2007; Henderson & Weiler, 2010; Modimogale & Kroeze, 2011; Indarti, 2011; Okpara, 2011). Some studies have shown that in many developing countries SMEs account for a considerable share of production and employment and are therefore directly connected to poverty alleviation (Chiware & Dick, 2007; Indarti, 2011; Modimogale & Kroeze, 2011; Okpara, 2011; Abor, 2015).

In Africa, for instance, the SME sector has been found to play a decisive role not only in reducing high unemployment rates and improving income generation, it is also critical for achieving sustainable economic growth (Taylor & Murphy, 2004). According to Okpara (2011), SMEs can thus be a significant element in Namibia's economic development equation. For instance, as Namibia strengthens its market economy, SMEs could assist policy makers to eradicate poverty among the disadvantaged population of the country. To ensure that the SME sector is used as a poverty eradication tool, the Namibian economy requires an enabling environment that encourages, supports and promotes SME ethos.

Literature have shown that despite their importance to economic development, most SMEs across the world experience a plethora of challenges resulting from a globalised system of economic production and competitiveness. The challenges of globalisation and competitiveness continue to negatively affect the growth and survival of most SMEs (Chiware & Dick, 2007; Modimogale & Kroeze, 2011; Indarti, 2011; Okpara, 2011; Abor, 2015). Empirical research have found that globally, SME failures are high in developing economies compared to advanced market economies (Arinaitwe, 2006).

According to Okpara (2011), SMEs in emerging and developing economies of Africa face four broad areas of problems including administrative, operational, strategic as well as exogenous challenges. Stork's (2010) study on challenges SMEs face in Namibia, reported that most SMEs do not survive more than 2 years after their inception.

This study acknowledges that, while a number of research studies have focussed on factors that adversely affect the growth of SMEs in Namibia, to the best of the author's knowledge, research has yet to be conducted on the impact of Development Finance Institutions (SME Bank and Development Bank of Namibia) on the growth of SMEs in Namibia. This study investigates the impacts of DFIs in relation to the growth of SMEs in Windhoek, and focuses on SMEs located at Bokamoso Entrepreneurial and Katutura SME Incubation Centres as case studies.

This chapter is divided into four sections including this introduction. The next section discusses the background of the study on SMEs in Namibia. The third section presents the problem of statement on which this study is based including research questions and objectives and the research hypothesis. Subsequent sections include the justification of the study and the dissertation outline.

The objective of this study is to critically evaluate the contribution of DFIs in relation to the growth of SMEs in Windhoek and make recommendations on how DFIs can contribute towards SME growth for poverty reduction as well as employment creation in Namibia.

1.2 Background of the study of SMEs in Namibia

SMEs play a critical role in the economic development of African nations including Namibia (Stork, 2010; Okpara, 2011). For instance, numerous studies have found that SMEs contribute to employment creation, market expansion, strengthen the private sector and increase the per capita income of developing economies (Dick & Chiware, 2007; Stork, 2010; Indarti, 2011). Thus proponents of SMEs promotion in developing economies have argued that, for African countries to achieve long-term sustainable growth, it is critical that both public and private sectors create an enabling environment that encourages and supports SME expansion; after all SMEs are purported to be the engines of future economic growth (Dick & Chiware, 2007; Okpara, 2011).

It can thus be said that SMEs are important to all economies in the world. On what may be called "static" front, SMEs contribute towards the national output and to the creation of jobs; on the dynamic front they are a nursery for the larger firms of the future. Parallel with

ownership reform and privatisation, the number of SMEs is increasing (Chware & Dick, 2007; Sidik, 2012). To emphasise the importance of SMEs, the European Union reports that 93 per cent of its businesses are micro enterprises (Sidik, 2012). Available literature shows that in the United States of America (USA), SMEs create about 80 per cent of relatively new jobs (Mead & Liedholm, 1998; Scott, 2012). Statistics on SMEs from Northern Ireland and the United Kingdom (UK) show that, overall 56 per cent of employment opportunities are generated by the SME sector (Scott, 2012).

The SME sector in Namibia is categorised into two distinct major segments, namely, the informal and formal sectors (Stork, 2010; Nyandoro, 2012). The informal sector of SMEs is characterised by lack of employment contracts, and employees are not eligible to vacation leave (Stork, 2010). Additionally, workers in the informal sector have no social security and medical aid benefits and facilities and most employees are usually friends or family members. The informal sector of SMEs is primarily dominated by employees who might have failed to get jobs in the formal economy (Esselaar & Stork, 2006).

The formal sector of SMEs differs from the informal sector on laws and regulations that govern the former. Thus the formal SME sector in Namibia is characterised by many formal business processes that are highly standardised with lots of operating risk. It is further important to note that formal SMEs strive to keep proper books of accounting and follow business ethics (Nyandoro, 2012).

According to Ramsden (2010), over the past five years SMEs in Namibia contributed about 12 per cent to the country's GDP and around 20 per cent to employment during the same period. Despite their potential to contribute more towards the GDP and employment creation, it appears that SMEs in Namibia are struggling to survive. The NCCI (2011) noted that close to 90 per cent of SMEs have collapsed within the first five years of operation despite having two DFIs whose mandate is to support SMEs in Namibia.

While both scholars and practitioners agree that SMEs contribute immensely to the growth of domestic economies, many governments still lack policies to institutionalise the role of SMEs in the economy (Sidik, 2012; Indarti, 2011). In addition to lack of policies, most governments do not have reliable statistics on SMEs (Chware & Dick, 2007). Research have reported that a lack of uniform definition of the term SME, high costs associated with the development of

industrial census, absence of a functional SMEs data base, flawed registration process of most SMEs and exclusion of SMEs from the formal economy, are leading causes of unreliable statistics on SMEs in most developing economies (Modimogale & Kroeze, 2011).

Namibia ranks 70 in terms of its competitiveness among 141 economies worldwide (World Economic Forum, 2015). While the economy of Namibia is not doing badly on the competitiveness front, SMEs continue to struggle to survive. The Bank of Namibia (2010) indicated that the SME operating environment in Namibia has largely been volatile and competitive requiring them to be efficient and effective in monitoring their business operations. Thus, despite their volatility, it is imperative to note that SMEs are a backbone of growing economies and serve as an important source of per capita income (Visser, 2006; Scott, 2012; Sidik, 2012).

1.3 Problem Statement

The Ministry of Industrialization, Trade and SME Development (MITSD) baseline study, reported that the informal small business sector consists of enterprises with a narrow range of employed, self-employed and part-time people (MITSD, 2000, p.5).

The Government of Namibia recognizes the vital role that the small business sector can play in the country's socio-economic development. However, MITSD study revealed that the employment dynamics for SMEs in Namibia are moderate, which is contrary to popular beliefs that SMEs are not powerful "job engine" of job creation (Grossmann, Mwatotele, Stork & Tobias, 2004, p.1).

Despite this promising finding about the positive contributions of SMEs to the economy, report studies indicate that the sector faces a number of challenges ranging from lack access to finance schemes, limited access to markets, low levels of technology, lack of site and premises for operations, and lack of managerial skills to adequately steer SMEs to success (MITSD, 2000, p.5).

For instance, Decosa report, a research consultancy on SME appointed by Bank Windhoek, revealed that about 80% of all SMEs successfully registered in Namibia will fail within 2 years of operation (Katswara, 2005, p.1). In 2005, Nampa (2005, p.1) quoted David Nuuyoma, the

former Development Bank of Namibia (DBN) Chief Executive Officer (CEO) who confirmed that, “the failure rate for SMEs in Namibia is extremely high compared to the rest of the region.”

In 2011, the General Manager of the Namibia Business Innovation Centre, Dagmar Honsbein, revealed that most small businesses in Namibia fail within the first two years of their operation (Namibian Sun, 2011, p.1). It is thus evident that SMEs experience high failure rates, which may pose a threat to growth of the SME sector.

Namibia has a favourable legal and policy framework that governs and promotes SMEs. Currently, Namibia has two development financial institutions (SME Bank and Development Bank of Namibia), which are responsible for promoting entrepreneurship in the country through financial assistance.

Since the inception of the SME Bank and Development Bank of Namibia no study has been conducted to assess how the two development financial institutions have impacted on the development and growth of SME in Namibia. Thus the present study intends to investigate the impact of the SME Bank and Development Bank on selected SMEs located in Windhoek municipal area, with specific reference to Katutura Township.

1.4 Research Questions

The research seeks to answer the following research questions:

- Does DFIs’ assistance promote the growth of SMEs in Windhoek?
- What are the reasons responsible for the slow or lack of SMEs growth in Windhoek?
- What strategies can DFIs implement to help SMEs develop and grow into competitive businesses?

1.5 Research Objectives

The main aim of this study was to investigate the impact of DFIs on SME growth in Windhoek. Specifically, the study sought to achieve the following study objectives:

- To investigate whether the assistance SMEs get from DFIs is able to promote their growth.

- To identify and examine the reasons responsible for the slow or lack of SME growth in Windhoek.
- To explore strategies that DFIs in Namibia can implement to help SMEs to progressively develop and grow into competitive businesses.

1.6 Research Hypothesis

A hypothesis is defined as a restatement of the research aims in that it specifies what is going to be studied (Zikmund & Babin, 2013). Thus, two hypotheses are going to be made in this study that is a null and alternative hypothesis. This study is hypothesised as follows:

H₀: DFIs in Namibia's assistance does not promote the growth of SMEs

H₁: DFIs in Namibia's assistance promotes SMEs growth.

1.7 Justification of the study

Research has long acknowledged that SMEs are an engine of economic growth (Henderson & Weiler, 2010) and it is important that policy makers and SME operators in Namibia have a clear understanding of the factors that influences the broad economic and policy relevance, especially growth oriented SMEs which are considered the ever important source of job creation and poverty alleviation in market economies (Parker, 2004; Valliere, 2006). Nevertheless, the growth of SMEs is still one of the puzzles that have not been solved for a longer period in management and business research (Clarysse, Bruneel, & Wright, 2011), and it becomes important to note that the current study will help solve part of the puzzle through the investigation of the impact of DFIs on SME growth in Namibia.

This study is significant in numerous ways. First, it is hoped that the current study will contribute to the existing literature on SME development and factors that prevent the growth of SMEs. Second, this research study will help the researcher to develop appropriate research skills in the area of development finance within the SME field.

Third, it is also hoped that the findings of this study will develop positive perceptions of practitioners and development financial institutions about the importance of SMEs in the economic growth and development. Fourth, it is further hoped the findings of the present study will provide valuable information to SME owners and managers, potential SME aspirants and development financial institutions about the impact of DFIs on the growth of SMEs in

Windhoek. Specifically, the results of this study will serve as a source of information that will highlight context-specific factors that possibly prevents the growth of SME development in Namibia including strategies on how to mitigate identified challenges.

Lastly, but not least, it is further hoped that the findings of this study will help policy makers at the Ministry of Industrialisation, Trade and SME Development to find ways of how to collaborate with DFIs and other SME financiers so as to strengthen the financing mechanisms of SMEs countrywide.

1.8 Dissertation Outline

This study has 5 chapters as follows:

Chapter 1: Introduction and Problem Statement that militate against the development of SMEs in Namibia, with the

This chapter discusses the general introduction on the impact of DFIs (SME Bank and Development Bank of Namibia) on the growth of SMEs in Namibia. The chapter further presents the background of the study, the problem statement including questions and objectives of the study; justification of the study, and the definitions of key terms used in this study.

Chapter 2: Literature Review

Chapter 2 scrutinised the obtainable literature on the topic and how the research study fits into the gaps that were identified in the literature. It provided theoretical foundations of factors militating against the development of SMEs and the challenges that SMEs face as they compete in the increasingly competitive business environment. In addition to this, the roles and impacts of DFIs were also be discussed in this chapter. Aspects of the business environment that contributes towards SME development and growth were discussed and contextualized.

Chapter 3: Research Methodology

Chapter 3 outlined the research methodologies and described the study area and parameters. It was also in this chapter that the research strategy was outlined. It covered the selection of the sample, data collection process and the overall research methodology employed in this study.

Chapter 4: Findings and Data Analysis

The fourth chapter presents the analysis of data collected. The objective of this chapter was to provide a discussion of the results of the survey data as well as the interpretation of the data. It discusses descriptive statistics of the factors that militates against the development of SMEs in relation to growth and performance in Windhoek. In addition to this, the other descriptive statistics shows the impacts of DFIs on the growth of SMEs in Windhoek, Namibia

Chapter 5: Conclusions and Recommendations

Chapter 5 is a chapter that outlines the study's conclusions and it is the objective of this chapter to provide the recommendations of this study. Recommendations are made to assist SMEs in improving their business performance through understanding factors that hinders their development, performance and growth.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

The previous chapter presented the introduction and problem statement of the present study. This chapter provides nine subsections including this introduction. The next subsection presents various definitions of the term SMEs based on reviewed literature. Also the subsection defines SMEs based on the Namibia's policy framework. The chapter also presents a general summary of the genesis of the SME sector in Namibia. Moreover, this chapter describes how SMEs developed and grew in Namibia. Additionally, the chapter discusses the involvement (or lack of) of DFIs in the SME growth. Further, the chapter provides evidence of empirical studies that have been conducted in Namibia specifically in the SME sector. The chapter furthermore presents the Namibian context within which SMEs have developed in the country. This chapter further presents the theoretical framework of the present study. Lastly, the chapter presents the conclusion.

2.2 Definition of SMEs

There is no universal definition of what constitutes an SME (Ayyagari, Beck & Kunt, 2003). The term SME covers a wide range of definitions and measures that are usually varied from one country to another and between the sources that report SME statistics (Ayyagari *et al.*, 2003). Despite the confusion that surrounds the definition of SMEs, some of the most commonly used criteria are the number of employees, total net assets, sales and the investments that have been made by the company. There is, however, a variation in defining the upper and lower size limit of an SME and theoretical and empirical research on SMEs has long indicated the complexities that surround this economic sector (Pasanen, 2005). Therefore, there is no universally accepted definition of the term SME, while on one hand, the definitions provided by various scholars at times appear to overlap each other and end up providing different meanings in different countries (Pasanen, 2005; Sten, 1998). On the other hand, mainly because of the semantic pluralism, comparison of the results from studies conducted in different contexts is therefore subjective and quite cumbersome to aggregate. In this vein, and as a point of departure, a brief definition of the term SME will be given in subsequent paragraphs.

SME is defined differently in many countries; there is not standard definition of this term globally. Some attempt to use the capital assets while others use skill of labor and turnover level. Others define SMEs in terms of their legal status and method of production. Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. In Ghana, SMEs can be categorized into urban and rural enterprises. The former can be subdivided into “organized” and “unorganized” enterprises, (Abor, 2011). The World Bank defines SMEs as those enterprises with a maximum of 300 employees, \$15 million in annual revenue, and \$15 million in assets (Dalberg, 2011).

According to OECD (2006), an SME is an organisation with an upper limit of 250 employees, as is the norm in the European Union. Conversely, some countries have set the limit at 200 employees, while other countries particularly the United States of America considers SMEs to include firms that have less 500 employees. Within the Namibian context, there are several definitions that have been given to the term SME. The widely used definition of the term is given by the Ministry of Industrialisation, Trade and SME Development defines an SME as any organisation that has an annual turnover less than N\$1 million and employees less than 10 people. Thus, according to the ministry, the number of employees must fill the criteria together with at least one of the two criteria that is annual turnover and capital employed. Therefore, the definition of the Ministry of Trade and SME Development will be used in this research study.

2.3 Overview of the SME Sector in Namibia

According to the National Development Plan 4 (NDP) (2013), estimate that, the contribution of SMEs towards employment creation in Namibia is around 180 000 persons, suggesting that the sector is a key economic sector in the country. It is imperative to note that the growth and expansion of SMEs is significant for economic development in Namibia. The SMEs in Namibia contributes 30% towards the national GDP (NDP 4, 2013). However, the impacts of DFIs in this contribution remains unknown and it is the concern of this current study that it seeks to investigate the role and impacts that DFIs are playing towards the development and growth of SMEs in Namibia in general and Windhoek in particular.

The SME sector became a key pillar of the Namibian sector as early as 1990 (Jauch, 2010, p.2). Before Namibia gained independence, the focus was on large business ventures as compared to SMEs, and the SME sector in Namibia which is both formal and informal remained very

small prior to independence (Jauch, 2010, p.2). The same source claims that, since independence, the SME sector has grown substantially and is estimated to grow by approximately 16 500 jobs per year. To the contrary, Jauch (2010) notes that the growth of SMEs in Namibia is not necessarily attributed to government interventions or policy initiatives, but mainly came as a result of the market failure that characterised the formal sector of the economy to create jobs for the increasing number of school leavers.

In Namibian context Jauch (2010, p.3) classified the SMEs as informal trades that include Cuca shops, informal cross border trade and informal meat markets like Kapana, Small scale construction (comprising of building, brick making, plumbing, welding, carpentry and electricity), Subsistence farming, Crafts (inclusive of woodwork, pottery, handicraft, basketry, jewellery making, leather working, weaving, furniture making and sewing), Small scale mining, Small scale manufacturing for instance bread making, tailoring, food catering, candle making and confectionery; and Informal services that comprises of transport services, repairs of cars, shoes, electric household appliances, gardening, and domestic work.

These types of businesses however, are found in both the formal and informal parts of the SME sector in Namibia.

2.4 Development and Growth of SMEs

In terms of growth SMEs seem to have advantages over their large-scale competitors in that they are able to adapt more easily to market conditions, given their broadly skilled technologies. They are able to withstand adverse economic conditions because of their flexible nature (Abor, 2011). For the growth the availability of bank credit/institutional finance is an important prerequisite for the progress of the SME sector (Sobha and Koteswara, 2008). According to a study conducted by Beck (2007) the cost of finance is rated by over 35% of small and medium enterprises as major growth constraint in a sample of 71, mostly developing countries, more than any other characteristic of the business environment. He went on to say the effect of financial and legal development on the constraints-growth relationship is significantly stronger for small firms than for large firms. Financial and institutional development thus helps close the gap between small and large firms.

The development of the private sector varies greatly throughout Africa. SMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favour of private enterprise. Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations (tontines), which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectoral focus (Kauffmann, 2005). On the other hand, access to financial services can help new entrepreneurs survive beyond the first year, as evidence from Bosnia shows and can help enterprises innovate at a faster rate (Beck, 2007). The points mentioned above show the importance of access to affordable finance by the SMEs.

2.5 DFIs and SME Growth

The costs of lending by banks to SMEs are relatively high, as loan sizes are small, and the transaction costs per loan are relatively constant. DFIs have exhibited strong interest in development interventions in the SME space. IFIs have an advantage in the sense that they can offer technical assistance and capacity building alongside financial support, and provide support and interventions to strengthen the lending environment. Thus, DFIs aim to provide capital that would not be provided by other parties, and do not replace the efforts of other private sector actors (Dalberg, 2011). SME lending is still considered a high-cost lending product. More specifically, unlike other lending products that can be reduced to simple transactions, SME lending often still depends heavily on relationships between borrowers and lenders (Berger & Udell, 1998, 2006). If the debtor is privy to information about her project or her effort and the lender may only secure this information at a prohibitively high cost, this can lead to two different sources of risk: 10 adverse selection and moral hazard (Beck, 2007).

The costs of lending by banks to SMEs are relatively high, as loan sizes are small, and the transaction costs per loan are relatively constant. International Finance Institutions (IFIs), which are development agencies, have exhibited strong interest in development interventions in the SME space. IFIs have an advantage in the sense that they can offer technical assistance and capacity building alongside financial support, and provide support and interventions to strengthen the lending environment.

DFIs aim to promote best practices in business, governance and environmental standards in the funds or companies in which they invest (Rhianydd & Evans, 2012). Therefore only the formal SMEs can access funding from DFIs because they would have met regulation requirements. They went ahead to state that DFIs invest in areas where, typically, commercial investors/banks would not or seemed too risky such as SMEs.

2.6 Empirical Studies on SMEs growth

The SME literature that was reviewed showed that the external business environment is a crucial and significant element that is also responsible for the growth of SMEs (Hashi & Krasniqi, 2010). A more recent line of research that has investigated the impact of the external environment on the growth of SMEs in advanced market economies focused on the so-called “barriers to growth” literature (Hashi & Krasniqi, 2010), and it maintains that only a portion of SMEs are growth oriented and are afflicted by the external business environment. While Hashi and Krasniqi (2010)’s work focused on entrepreneurship and SMEs growth, using evidence from advanced and laggard transition economies, a scan of the literature shows that Africa in general and Namibia in particular are yet to attract such an academic interest on the topic.

The growth of SMEs is one of the unsolved management and business research puzzles (Clarysse *et al.*, 2011). The growth of the SME firm has become a major indicator for overall business success within entrepreneurship research (Carton & Hofer, 2006) and this growth is believed to be influenced by business orientations that includes among them customer orientation and entrepreneurial orientation (Eggers, Kraus, Hughes, Laraway, & Snyckerski, 2013). However, the research that has focused on entrepreneurial and customer orientation seems to be providing confusing results, as some of the scholars have measured these constructs differently and assumed different relationships among them, with other scholars suggesting that in the end have obtained a battery of different empirical results (Baker & Sinkula, 2009). In as much it remains unknown on these two constructs, literature has also been scanty on the effect of DFIs on SME growth, suggesting that, it is not clear whether it is entrepreneurial orientation, customer orientation or DFIs support that lead to SME growth and how it can be balanced within one firm. Extant literature shows that there is a likely trade-off between highly innovative and particularly customer oriented at the same time. Therefore, it becomes apparent for this study to clearly show the impacts of DFIs on SME growth and promotion.

2.7 The Namibian SME context

The development for SMEs in Namibia has been documented in SME literature as one of the key models of Black Economic Empowerment (BEE) (Joint Consultative Committee, 2004). BEE is the process of giving preference to previously disadvantaged members of the society such that they are also able to share and partake the national economic benefits. Thus, according to the Joint consultative Committee, SMEs in Namibia represent the answer that is required for economic empowerment as suggested by their contribution towards economic development in the country.

The contribution of SMEs to the world economy has received a lot of academic attention and Namibia is no exception (MTI, 1994). Extant literature shows that in recent times, Namibia has witnessed a considerable growth in the new numbers of SME businesses (Kambwale, Chisoro & Karodia, 2015), with about 40 000 SMEs currently registered with the Ministry of Industrialisation, Trade and SME Development. Kambwale *et al.* (2015) note that, SMEs in Namibia plays a significant role in relation to their contribution to the national economy in various ways such as employment creation, value addition to the gross domestic product, and the realisation of the government's vision 2030 agenda. Concomitantly, extant literature also recognises that the majority of SMEs are experiencing difficulties especially in their first 24 month of inception (Kambwale *et al.*, 2015). With such an equally large number of failures, it is substantially crucial for this study to investigate the impact of DFIs on the growth and performance of SMEs in Windhoek given that the growth of SMEs is a critical element for sustainable economic development in Namibia.

It is imperative to note that government plays a critical role in the development of SMEs particularly with issues of strengthening the institutional foundations of lending (Kambwale *et al.*, 2015). This is particularly important in that, when the creditor's rights are strengthened, it helps in improving repayment behaviour and enhances the banks' willingness to finance. Literature that examines the willingness of banks in the Namibian context to finance SMEs is relatively limited and it calls for more research. Similarly, government plays an overly important role through incentivizing banks to introduce products like leasing, invoice discounting and factoring, all of which have been documented in literature as some of the problems that leads to circumventing the problems of collateralised lending to SMEs.

Literature shows that the introduction of SME credit Bureaus has the probability to significantly reduce the cost that is involved in lending to SMEs and generally leads to an improved access to finance by the SME organisations (Kambwale *et al.*, 2015). While it is documented that various governments have used the credit guarantee schemes to increase SME lending as a way of reducing SMEs failure, the context of Namibia is relatively unexplored in relation to research. It is important to note that, while Namibia has put a lot of effort in improving the SMEs' access to finance and other crucial services that helps SMEs to succeed, the impacts of DFIs on SMEs growth remains under researched.

Nakusera, Kandhikwa and Mushendami (2008, p.4), note that one of the government efforts to help SMEs access finance came through the establishment of the Development Bank of Namibia (DBN), and the Small Business Credit Guarantee Trust (SBCGT), which was transformed into the SME Bank. These are the main development finance institutions providing access to financial services for SMEs. The objective of the DBN is to fill the existing financing gap in the major medium and long-term development projects of both the private and public sectors. The DBN mostly caters for the larger firms and larger projects, yet, through their Special Development Fund (SDF), also focuses on SMEs, thereby supporting key sustainable development projects and programmes. However, no research has been undertaken to show the impacts of these DFIs in relation to the growth of SMEs in Namibia in general and Windhoek in particular.

2.8 Theoretical Framework

Today's business environment is full of uncertainty and this call for unique organisational capabilities to survive. Adaptation of firms towards a certain industrial structure and business context has evolved into an orientation where a company attempts to shape their strategic and operating environments (Eng, 2010). Research shows that, there are two components of strategic capabilities and this includes organisational resources and organisation competences (Johnson, Scholes & Whittington, 2011). Resources are referred to as assets that a business organisation relies upon for it to achieve its business goals and objectives while competences are the ways in which the assets of the organisation are being utilised in a productive context (Johnson *et al.*, 2011). Thus, it must be noted that, the dynamic capabilities theory contemplates the strategic position of a business organisation as a management response and adapt the

business operation context into account by focusing on organisational strengths and weaknesses (Lynch, 2012).

“The term ‘dynamic’ refers to the capacity to renew competences so as to achieve congruence with the changing business environment; certain innovative responses are required when time-to-market and timing are critical, the rate of technological change is rapid, and the nature of future competition and markets difficult to determine” (Wheeler, 2002, p.127). The dynamic capabilities theory is an attempt to elucidate how new capabilities can be developed and how novel resources and capabilities combinations can help business organisations to attain a sustainable competitive advantage under conditions of technological and market change (Lynch, 2012; Johnson *et al.*, 2011; Teece, Pisano & Shuen, 1997). To this end, the dynamic capability theory attempts to provide a narrative analysis of why some firms succeed in dynamic competitive environments while others fail (Arend & Bromiley, 2009). The concern of this study is to explore the contribution of DFIs on the growth of SMEs in Windhoek. Therefore, the dynamic capability theory will inform the theoretical framework of this proposed study, and the researcher will track relevant literature of the dynamic capability theory, which has addressed how SMEs adapt to their external environment for keeping their competitive advantage in a sustainable manner.

2.9 Conclusion

This chapter reviewed literature related to the effect of growth and development of SMEs. It has covered the definitions of SME, and growth and Development of SMEs. The study notes that, while a growing SME literature exists, empirical studies in relation to the impacts of DFIs on SME growth is still quite scanty. The growth of SMEs is one of the unsolved management and business research puzzles and growth of the SME firm has become a major indicator for overall business success within entrepreneurship research. The next chapter focuses on the research methodology that was used to collect data for this study.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The previous chapter presented the literature reviewed for the present study. This chapter outlines the research methodology that was used in collecting data for this study. The chapter consists of 13 subsections including this introduction. The second subsection presents the research design that was adopted in the study, which is followed by the research strategy and then an outline of the population of the study. The sixth subsection concentrates on the sampling procedure including the sample size of the study.

The seventh subsection discusses the data collection followed by how data for this study were collected, which explains the questionnaire instrument, the design and how the questionnaire was administered. The eighth subsection describes the procedures that were followed for pre-testing the research instrument. The chapter further explains how issues of validity and reliability and data analysis were handled in the study.

The eleventh subsection describes ethical considerations and how such issues were handled in the present study. Furthermore, the chapter presents the limitations that were encountered while conducting the present study. Lastly, a conclusion of the chapter is provided.

3.2 Research Design

Oppenheim (1992) defines research design as a basic plan or strategy of the research study and the logic behind it that makes it possible and valid to draw more general conclusions from it. Thus, a research design is more like a strategic plan, without it, it would be impossible to carry out the research successfully. Bryman and Bell (2007), for instance, suggested that a research design of a study is a framework through which the researcher is able to demonstrate how data were collected and analysed. Du Plooy (2007) agreed and emphasised that a research design is a platform, which should provide answers to the questions of who and what was involved in the research study, and where and when did the study take place.

Yin (2003) suggested three broad types of research designs (exploratory, descriptive and explanatory) that researchers might use singly or combined, to achieve and respond to their research objectives and questions. While researchers might use exploratory research when little is known about the topic and previous theories or ideas do not apply, researchers might use descriptive designs to answer specific known research questions. Explanatory research designs, located into qualitative inquiry, on the other hand, intend to explain the phenomena studied (Yin, 2003).

The choice of a research design is based on the priority that the researcher gives to the research variables; the connections between variables, and the size of the sample under investigation (Maree, 2007, p.152). In the context of this study the researcher adopted two research designs described below for various reasons.

3.2.1 Exploratory research design

Studies indicate that exploratory research design is appropriate for exploring the main research question in order to understand the relevant range of concepts and concerns, and to determine the relative frequencies of the phenomenon under study within the population (De Vos, *et al.*, 2013, p.320; Mouton, 2001, p.55).

This study used an exploratory, qualitative research design in order to understand the meanings and life experiences of research participants. Also the exploratory design was used to clarify the research problem, gather data and creates initial hypothesis and theories about subjects. Thus the exploratory research design was primarily used to provide the researcher with pertinent information required for initial formation of the research hypotheses.

3.2.2 Descriptive research design

Rodson (2002) explained that descriptive research is used to portray an accurate profile of persons, events and situations. Schindler (2003) shared the same view and further suggested that descriptive research is appropriate for data derived from quantitative studies. Thus in this study, the descriptive research design was adopted to provide answers to questions of who, what and how part of the research topic. Also the researcher chose this research design to enhance the reliability, credibility and validity of the research process and results.

3.3 Research Strategy

Kitamoto (2009) defined a research strategy as a general plan of how the researcher goes about answering the research questions already set. Saunders *et al.* (2007) and Malhotra (2010) highlighted numerous research strategies including action and experimental research, surveys and case studies.

It is important to note that the type of research design a researcher adopts determines the choice of an appropriate research strategy for any given study. Based on this premise the present study adopted two research strategies, namely case study and survey research strategies aligned to exploratory and descriptive research designs discussed above (see 3.2.1 and 3.2.2).

3.3.1 Case study research

There are different ideas about what a case study is. A case study is a research strategy that is concerned with a specific situation and requires an in-depth analysis of a phenomena under study. Saunders *et al.*, (2007), for instance, observed that a case study strategy is mostly used where the motive and objective of the study is to gain rich and in-depth understanding of the research context and the processes that are being enacted. Case studies are said to be meta-data method and are used to compare the case study with the actual situation. A case study can be viewed as an in-depth study of interactions of a single instance in a closed system (Denscombe, 2000; Malhorta, 2010).

Yin (2003) cited in Saunders *et al.*, (2012) maintained that case studies can be single or multiple, holistic and/or embedded.

Yin (2009) identified the following four main characteristics of cases that might be studied:

- be a complex functioning unit,
- be investigated in its natural context with a multitude of methods, and
- be contemporary
- the researcher can ask “how” and “why” questions so as to understand the nature of complexity of the process

Thus based on Yin’s (2009) advice, this study adopted a case study research strategy for five key reasons. First, because the strategy marched with the research design of the present study. Second, the case study strategy was preferred because it had the potential to assist the researcher to answer research questions of “when”, “how” and “why”, which pivotal to this

study. Third, the researcher chose the case study strategy since he had little control over the events of the inquiry, which occurred in the real life situations. Fourth, the researcher chose to use the case study strategy on the assumption that few previous studies have been conducted on the impacts of DFIs on the growth of SMEs in Namibia. Overall, therefore, the researcher used a case study strategy to collect in-depth information to understand the research problem much better than it would have been had only a more objective strategy been adopted.

3.3.2 Survey research

A survey research strategy is usually associated with the deductive research approach and is more applicable in business and management research studies. The survey strategy is most associated with descriptive research designs and allows the collection of enormous amount of data from large research populations at a lower cost.

The survey strategy was used in this study to mainly obtain objective information from SME managers, owners of SMEs and development finance experts about the impacts of DFIs on the growth of SMEs in Namibia.

3.4 Population of the study

Population refers to the total number of people living in a particular demographic area at a certain point in time (Malhorta, 2010). Zikmund and Babin (2013) define population as the total group of people from whom information is needed. Malhotra (2010) define a population as all elements (individuals, objects, and events) that meet the sample criteria for inclusion in the study.

The population of this study included owners of SMEs, which were duly registered with the Ministry of Industrialisation, Trade and SME Development conducting their business operations at Bokamoso Entrepreneurial and Katutura Incubation Centres, managers and their employees. Additionally, the population of this study also included key financiers of SMEs at the SME and Development Banks of Namibia.

3.5 Sampling Procedures

Sampling is a key aspect in research. Jensen (2002, p.215) argued that findings of survey studies can be generalised when the sample is representative of the total population from

which they were drawn. Keyton (2001) indicated that representativeness is the main aim in selecting a sample from a population. To the extent that a sample is representative, all elements in the sample should have the same chance of being selected as part of the sample for the study. This study used probability sampling method to choose respondents. Within this sampling approach, a simple random sampling technique was used to select individuals who participated in this study (Gall, Borg & Gall, 1996, p.223). However, DFI representatives for this study were purposively selected.

3.5.1 Sample size

A representative sample of 80 participants selected from a large number of 100 members took part in the present study. Three criteria guided the selection of the sample for this study, namely time availability, affordability and representatives (Krejcie, 1970; Maxwell, Kelly & Rausch, 2008).

3.6 Data Collection Procedures

There are two categories for data collection in carrying out a research, that is primary and secondary data collection. Hakim, cited in Saunders *et al.* (2000, 2012) referred to secondary data as “data that have been collected for other purposes”, while Saunders (2000) added that “secondary data can provide a useful source to answer or begin to answer one’s research questions.” On the other hand, primary data is new and collected for that specific purpose. Both categories of data collection can further be divided into internal and external sources of data (Saunders, 2000).

Internal data, which is more reliable is generated from within the organisation for research purposes. On the other hand, external data is less reliable because the extraction process is less removed from the source (Saunders *et al.*, 2000).

Data for this study were collected through secondary and primary means. Secondary data is defined as data that already exists and might have been collected for other research and not particularly for this research (Tull & Hawkins, 1993). The researcher used internal secondary data including minutes of meetings, policy documents and various SMEs strategic documents as well as statistical figures of amounts that were disbursed to SMEs (Saunders *et al.*, 2000).

Also an extensive literature review was conducted to collect secondary data that were relevant to the present study.

Moreover, the researcher collected primary data through emails, questionnaires and interviews with selected research respondents (see Appendix 1 and 2).

3.7 Data Collection Instruments

The researcher collected primary and secondary data through structured self-administered questionnaires and unstructured open-ended questionnaires as discussed below.

3.7.1 Self-Administered Questionnaire

Cannel and Kahn (2008) defined a questionnaire as a list of questions, which are carefully documented and given to a respondent to answer. A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents (Keyton, 2001).

Self-administered questionnaires consisted of closed and open-ended questions. Closed-ended questions were used because they were relatively easy to analyse, were less costly, were simple to administer, and their format was familiar to most respondents. Also questionnaires were used by as they were simple and quick for respondents to complete, and allowed the researcher to collect information in a standardised manner. Moreover, questionnaires enabled the researcher to obtain information from individuals on issues that would have been difficult to obtain in an interview setting.

On the other hand, the researcher obtained comprehensive answers to research questions through open-ended questions.

Despite the advantages of questionnaires in this study, the researcher encountered numerous problems with questionnaires: they did not allow further probing of the respondents and thus some answers that required further explanations were left unclear, other respondents did not answer distributed questionnaires citing busy schedules, and other questionnaires went missing. The other limitation that was observed through the use of questionnaires was that most questions did not provide relevant answers as the researcher would have wanted.

3.7.2 Questionnaire Design

The researcher developed a questionnaire that was used for this study from previous studies (Chiware & Dick, 2007; Henderson & Weiler, 2010; Modimogale & Kroeze, 2011; Indarti, 2011; Okpara, 2011). The questionnaire was developed using a 5 point Likert scale contained variables measuring respondents' perceptions about the impact of DFIs on SMEs' growth and performance within the context of Windhoek (see Appendix 1A-B).

3.7.3 Administering the Questionnaire

The researcher used two approaches in administering the questionnaire in this study. First, respondents who had email addresses received their questionnaires via their email addresses. The researcher also employed a follow up call to confirm whether or not respondents received their questionnaires. Second, the researcher delivered questionnaires to respondents who did not have email addresses. In addition to phone calls reminding respondents about the completion of questionnaires, the researcher also collected completed questionnaires from respondents.

3.8 Pre-testing the Research Instrument

Pre-testing, according to Keyton (2001) happens before data collection actually begins. At this stage, the researcher tries to administer the questionnaire to a small group of respondents who are similar to those individuals that form the rest of the population. Keyton (2001) highlighted four approaches to pre-testing a survey: cognitive, conventional, behaviour coding and expert panel (Keyton, 2001:182). In regard to this study inquiry, the researcher used two approaches: the cognitive approach and an expert panel. The main aim of cognitive approach to pre-testing is to help identify questions that stimulate multiple interpretations. This approach allows the researcher to test for semantics or problems affecting how easily the question can be understood (Keyton, 2001:182).

Pilot study was done before conducting the research; this refers to smaller version of a larger study that is conducted. A pilot study can involve pre-testing a research tool, like a new data collection method. It can be used to test an idea or hypothesis (Wong & Kong, 2009). The main reason for conducting a pilot test was to detect weaknesses in design and instrumentation as well as providing alternative data for selection of a probability sample. Pilot tests were done

using experts in business research methods on SMEs; the main reason for choosing this group was that they were the ones who could have an idea of what are the impacts of DFIs on business performance means. It was discovered that the wording of some of the questions in the questionnaire were not suitable for the target group. The researcher had to rephrase some questions and remove repetitive ones.

Additionally, the expert panel approach to pre-testing was used. The researcher used experts in DFIs and business performance research methodologies to assist in improving the questionnaire. The questionnaire was read through and potential problems discussed. Keyton, (2001) acknowledged that because they are experts, this approach to pre-testing can pinpoint semantic problems on how questions are worded, as well as potential problems encountered with analysing the data after the survey is complete.

3.9 Validity and Reliability

The main aim of social scientific research, particularly within the positivist tradition, is the establishment and demonstration of the reliability and validity of research findings (Jensen, 2003: 212). Data obtained through measurements that are not valid are worthless data. Measurement has validity to the extent that it measures what the researcher wants it to measure and not something else. On the other hand, reliability speaks to the consistency or stability of the measurements (Keyton, 2001: 110).

Keyton (2001) argued that, there are several types of validity, namely: face validity, content validity, criterion-related validity, and concurrent validity, predicative and construct validity. In connection with this research, the researcher used content validity. This is the degree to which the items in the measuring device represent the full range of characteristics or attitudes associated with the construct of interest (Keyton, 2001). Rubin (2005) and Jensen (2003) explained that reliability refers to how dependable, consistent and repeatable measures are in a study and across several studies. There are several types of reliability; test-retest reliability, split-half reliability and internal reliability. In this research, internal reliability was measured. If all the items in the measurement seem to measure the same thing, one can say that the measure has internal reliability. This study used the Cronbach's Alpha to test the valid and reliability of the study.

3.10 Data Analysis

Leedy and Ormrod (2010, p.257) stated that the important tool for organizing data is the electronic spreadsheet, a software program that allows a researcher to manipulate data displayed in a table where the Microsoft Excel and Lotus 1-2-3 are widely used. The responses to all items are classified in groups according to the questions in the survey tool and tabulated in different categories using the Excel spreadsheet computer package and. Statistical procedures that are applied as part of data analysis includes descriptive statistics and frequencies. These portions of statistics are used to evaluate the impacts of DFIs on the growth of SMEs in Windhoek. Data is presented in pie charts, tables and bar graphs. The findings are presented in Chapter Four of the final research report.

3.11 Ethical considerations

Saunders et al. (2012) posit that the researcher should abide by the ethics code of the research committee or professional institution they attend. Welmann et al. (2005) further explains that principles underlying ‘research ethics’ are universal and concern issues such as honesty and respect for the rights of individuals. In respect of this, ethics the researcher observed throughout this research and the following ethics were considered:

- *Respondents’ rights and privacy,*
- *The right to confidentiality,*
- *The researcher’s responsibility and honesty, and*
- *Informed consent.*

3.12 Limitations of study

The area of study under SME development is so diversified to the extent that looking only at the impacts of development finance institutions on the growth of SMEs is just but a mere segment of the whole spectrum of SME development domain. It was difficult to cover all the impacts of DFIs on SME development constructs due to time constraints as this study was supposed to be completed by 8 December 2016. In addition to this, another limitation to this study has been acknowledged through the general lack of a universal definition of what constitutes a SME across governments and this lack of definition led the researcher to just use the definition that best suggests what the researcher thinks would be the best definition for such an entity. Windhoek has many locations where SMEs business are also growing and struggling

to get DFI funding and this study was only done using two locations in Windhoek and as a result, not all SMEs in Windhoek were covered.

The choices of SMEs covered in this research were restricted to only those which are duly registered with the Ministry of Industrialisation, Trade and SME Development and the ones in which the research got acceptance to be understudied, and this made the sample uneven in the process. Thus, this limited the generalizability of the research's findings to Windhoek as a whole.

3.13 Conclusion

This chapter dealt with the methodology to be employed in this research project. The type of the research, the research design, sampling procedures and the data collection methods and analysis employed has been elaborated in this chapter. The type of the research has been described as quantitative and the adoption of quantitative research type has been justified. The methods of collecting data by means of questionnaires have been explained. Finally, the need for ethical consideration when collecting data has been also explained. The next chapter will present the findings

CHAPTER 4

DISCUSSION OF FINDINGS

4.1 Introduction

The main aim of this study was to investigate the impact of DFIs on SME growth in Windhoek. The researcher developed three questions below to achieve the main research objective:

- Does DFIs' assistance promote the growth of SMEs in Windhoek?
- What are the reasons responsible for the slow or lack of SMEs growth in Windhoek?
- What strategies can DFIs implement to help SMEs develop and grow into competitive businesses?

To respond to these questions, exploratory and descriptive research designs were adopted in which both closed and open-ended questions were used to collect data from 41 randomly and purposively selected research respondents. Quantitative data were analysed and are presented using descriptive statistics, frequency counts and percentages.

This chapter presents the results of the analysis of the research data which was collected from SMEs at Katutura Incubation and Bokamoso Entrepreneurial Centres in Katutura Suburb in Windhoek. The findings of the study are presented in two sections. Section A presents the profiles of SMEs that took part in this study, which includes SME ownership types, duration of SMEs in business, SMEs' annual income, current number of employees, sector of SMEs, SME registration status and the market share for SME products (see Appendix 1).

Section B presents responses to questions related to the impact of DFIs on the growth and development of SMEs in Namibia. Section C presents respondents' responses regarding strategies that could be implemented to improve the status of SMEs in the Windhoek municipal area (see Appendix 1).

4.2 Response rate

A total of 80 questionnaires were personally administered by the researcher to SMEs at Katutura Incubation and Bokamoso Entrepreneurial Centres in Katutura in Windhoek,

Namibia. 41 questionnaires, with a 50% response rate, were returned and analysed (see Table 4.1).

Table 4.1: Response rate

Category	Frequency	Percentage
SMEs in Kuryangava	21	51.2%
SMEs at Bokamoso Entrepreneurial centre	20	48.8%
Total	41	100%

Source: Estimates from survey data, 2016

As shown in Table 4.1 above while slightly more than half (51.2%) of questionnaires were received from SMEs in Kuryangava, around 48.8% questionnaires returned from SMEs at Bokamoso Entrepreneurial Centre. On average only about half (50%) of distributed questionnaires were returned and analysed for this study.

Section A: Profile of SMEs

This section describes the characteristics of SMEs (business type, annual income generated and SME sector) that participated in this survey (see Tables 4.2 to 4.4 below).

4.3 Characteristics of SMEs

4.3.1 Types of SMEs

Research respondents were asked to indicate the type of SMEs they were involved in. Table 4.2 below presents the different types of SMEs that took part in the present study.

Table 4.2: Type of SMEs

	Frequency	Percentage
Sole trader	11	26.8%
Partnership	4	9.8%
Close corporation	26	63.4%
Total	41	100%

Source: Estimates from survey data, 2016

Table 4.2 above shows that 11 respondents (26.8%) out of 41 companies that participated in this study were sole traders, while 4 (9.8%) were partnerships. In addition, Table 4.2, shows that 26 (63.4%) of companies that took part in this study were close corporations.

The findings shown in Table 4.2 above indicate that the majority of SMEs that participated in this study were close corporations, followed by solar traders while a minority of SMEs were partnerships. From these data it can be assumed that the majority of SMEs in Namibia and particularly in Windhoek are registered as close corporations.

4.3.2 Number of years SME in business

Respondents were asked to indicate how long their SMEs have been in business. The study found that 34.9% of respondents have been in operation for 1 - 5 years, 23.3% for 6 -10 years, 14.0 % for 11-15 years, 9.3% for 16-20 years and 18.6% for over 21 years.

The findings of the study show that the majority of SMEs in the present study have in operation for less than 5 years. Interestingly, the findings also show that about 18.6% of SMEs in this study have been in business for slightly more than two decades since independence.

4.3.3 SMEs annual income

Respondents were asked to provide information regarding the annual income levels of SMEs. Such information was required to determine the growth of SMEs. Table 4.3 below presents data about SMEs' annual income levels.

Table 4.3: Annual income

	Frequency	Percentage
N\$100 000 - N\$200 000	17	41.50%
N\$200 001 - N\$400 000	8	19.50%
N\$400 001 - N\$600 000	4	9.80%
N\$600 001 - N\$800 000	5	12.20%
N\$800 001 and more	7	17.10%
Total	41	100%

Source: Estimates from survey data, 2016

As can be seen in Table 4.3 above, about 41.5% of SMEs in this study reported an annual income range of N\$100 000 – N\$200 000, while 19.5% indicated an annual income level of between N\$200 001 – N\$400 000.

Table 4.3 above also shows that 9.8% of SMEs reported an annual income level of between N\$400 001 – N\$600 000, while 12.2% SMEs had an annual income of between N\$600 001 – N\$800 000. 17.1% of SMEs reported annual income levels N\$800 001 and more.

The findings of this study show that on average the majority of SMEs that participated in the present study had annual income levels of less than N\$600 000.

4.3.4 SMEs' sector of the business operation

SMEs that took part in this study were asked to indicate their different sectors of operation. Table 4.4 below presents the results of research respondents' responses.

Table 4.4: Sector of the business operation

Sector	Frequency	Percent
Panel beating & spray painting	8	19.50%
Clothing	6	14.60%
Consultancy	5	12.20%
Carpentry and wood joinery	5	12.20%
Catering	4	9.80%
Construction	4	9.80%
Car mechanic	2	4.90%
Marketing	2	4.90%
Welding	2	4.90%
Food	2	4.90%
<i>Kapana</i>	1	2.40%
Total	41	100%

Source: Estimates from survey data, 2016

It is evident in Table 4.4 above that most SMEs that participated in this study were in the panel beating and spray painting sector (19.50%), followed by clothing (14.60%, consultancy

(12.20%) and carpentry and wood joinery (12.20%). Around 9.80% of SMEs were in catering and construction sectors.

Table 4.4 also shows that a minority (4.90%) of SMEs in this study were in car mechanics, marketing, welding and food sectors. A mere 2.40% of SMEs run kapana.

4.3.5 Legal status of SMEs

The present study found that all SMEs surveyed in this study were registered with the Ministry of Industrialisation, Trade and SME Development.

Section B

4.4 Impact of DFIs on SME Growth and Development

This section presents the results of the impact of DFIs on the growth and development of SMEs in Windhoek. To find out the impact of DFIs on the development of SMEs in Windhoek, the study asked respondents to indicate if they have ever received funding from DFIs such as the SME Bank and the Development Bank of Namibia. Also the study asked if respondents received funding from commercial banks like Bank Windhoek, FNB, Standard Bank to Finance their businesses.

Additionally, respondents were asked to indicate the name of the financial institution and the amount of money they received from such institutions.

Moreover, the study asked respondents to indicate when they received grant money, whether the financial assistance sufficient, and what type of assistance SMEs received from DFIs. Figures 4.1 - 4.2

4.4.1 SME funding received from DFIs in Windhoek

Figure 4.1 below presents the results of whether SMEs in this study received funding from DFIs.

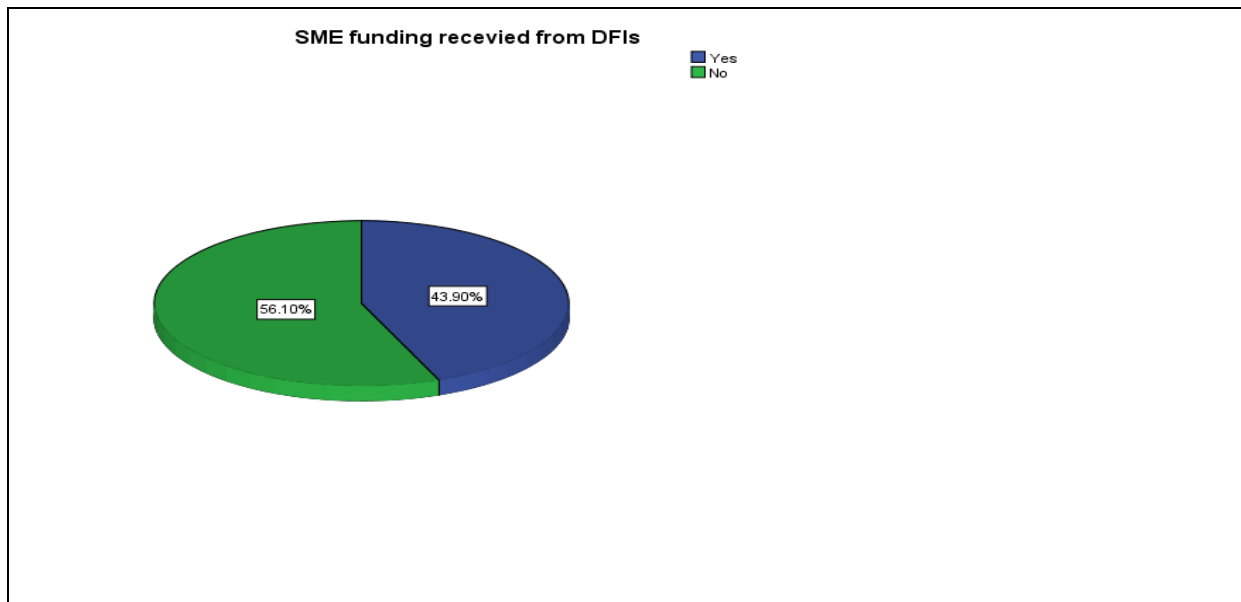


Figure 4.1: SME funding received from DFIs in Windhoek

Source: Estimates from survey data, 2016

The chart above shows that while more than half (56.1%) of the SMEs in this study did not receive any funding from DFIs, about 43.9% of the SMEs reported that they received funding.

As a result, the fact that SMEs find it difficult to access finance has led to a number of challenges and this affect the development of SMEs. Ramsden (2010), made a cross national study in Namibia's key success factors on SMEs and made references learnt from other countries concluded that, the key inhibiting factor towards the development of SMEs was the lack of access to external finance from DFIs and the findings of this study are also consistent with the conclusions and findings of Ramsden (2010).

Thus, it is important to note that, the access to finance from DFIs and probably the cost of capital is one of the biggest hindrances of SME development and growth at Katutura's Incubation Centre and Bokamoso Entrepreneurial Centres in Windhoek. This view is also shared by Stork (2010) who argued that, it is one of the biggest obstacles towards business performance and further investment by SMEs. Corruption was viewed as a threat to SME development and growth especially in the awarding of public tenders, land allocation and approval of industrial permits. The findings of this study are consistent with the research that was done by Krasniqi (2007).

4.4.2 SME funding support from commercial banks in Windhoek

Figure 4.2 below provides data on whether respondents received funding from commercial banks such as Bank Windhoek, FNB and the Standard Bank to finance their business.

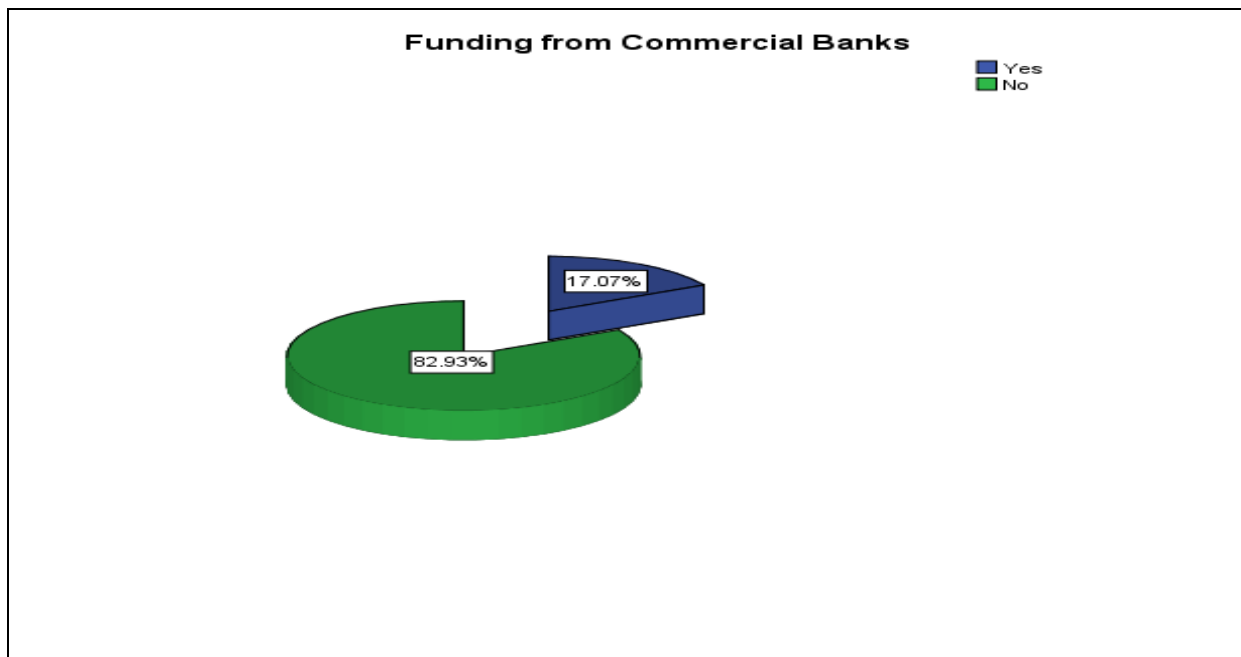


Figure 4.2: SME funding support from commercial banks in Windhoek

Source: Estimates from survey data, 2016

Figure 4.2 shows that 82.9% of the respondents did not receive any funding from commercial banks, whereas 17.1% of respondents indicated that they received funding mainly from Bank Windhoek. SMEs in this study reported that they received N\$10 000 to N\$500 000 loans to grow their businesses. Aluko and Oke (2015) have strongly confirmed that even though finance from the commercial bank is a very important part of SME financing which can contribute significantly to the growth of the SMEs. They therefore further argued that the governments should encourage the commercial banks to participate in SME financing.

4.4.3 Type of DFI assistance

It was important for this study to find out the type of assistance that SMEs received from development financiers as SMEs sought to grow and develop their businesses into competitive ventures. Table 4.5 below presents the findings of this question.

Table 4.5: Type of assistance from DFIs

	Frequency	Percent
SME loan	19	46.30%
None	22	53.70%
Total	41	100%

Source: Estimates from survey data, 2016

As shown in Table 4.5 above, whereas only 46.3% of the SME received financial assistance from DFI slightly more than half (53.7%) of the SMEs in this study reported that they have not receive any funding from DFIs for their business development and expansion.

4.4.4 DFI assistance and SME growth

Table 4.6: Perceptions of DFI assistance on SME growth

	Mean	Std. Deviation	N
Volume of transactions	3.000	1.183	41
Amount of money collected	2.950	1.224	41
Financial gain after expenses	3.120	1.229	41
Assistance from DFIs is helpful for SMEs	2.880	1.400	41

Source: Estimates from survey data, 2016

The average perception of DFIs' assistance on SME growth and development was 3.0 with a standard deviation of about 1.2 as shown in Table 4.6 below.

Thus, there was a consensus among the SMEs surveyed that the financial assistance from DFIs is critical in terms of helping them to increase their volume of transactions ($m = 3.00$). In addition to this, the other positive impacts that were perceived by participating SMEs were that DFIs' assistance was helpful in increasing the profits of SME businesses. However, other SMEs were of the opinion that, the assistance was not quite helpful as suggested by a low mean of 2.88, as well as failure to increase SMEs' revenue despite a surge in sales volume as shown by a mean of 2.95. Assistance from the DFIs is well recognised, like in Bangladesh loans and advances to SMEs has grown by 20% per year in recent years (Business Innovation Facility, 2012).

4.4.5 Reasons for slow SME growth

The study also sought to find out what were the reasons for the slow growth of SMEs in Windhoek, and the findings of this study presents an interesting finding. Data presented in Table 4.7 and Figure 4.3 below show the results of this question.

Table 4.7 Economic framework in which SMEs operate

	Frequency	Percent
Strongly agree	8	19.50%
Agree	10	24.40%
Neutral	13	31.70%
Disagree	9	22.0%
Strongly disagree	1	2.40%
Total	41	100%

Source: Estimates from survey data, 2016

Table 4.7 above shows that 19.5% of the SME respondents strongly agree that the economic framework has not been good for their operations, while 24.4% of the respondents also agree on this regard. Thus, a total of 43.9 percent believe their slow growth as business ventures is attributed to the economic framework within which they conduct business operations. Those who were indifferent as to their reasons for slow growth were 31.7 % of the respondents. Those who did not think that the economic framework was the main reason were 22.0% and 2.4 percent respectively.

4.4.6 Corruption as a deterrent of SME growth

Corruption was also identified as one of the reasons that SMEs in Windhoek felt was contributing towards their slow growth.

Table 4.8: Corruption as a deterrent of SME growth

	Frequency	Percent
Strongly agree	4	9.80%
Agree	19	46.30%
Neutral	14	34.10%
Disagree	3	7.30%
Strongly disagree	1	2.40%
Total	41	100%

Source: Estimates from survey data, 2016

A combined 56.1% of the respondents agree and strongly agreed that corruption was a key challenge and it has been affecting their growth as shown in Table 4.8 below. The respondents who were indifferent as to whether or not be corruption responsible for the slow SME growth in Windhoek stood at 34.1% of the respondents. Those who disagreed on the role of corruption and its effects on slow SME growth were 7.3% while those who strongly disagreed were 2.4% of the SMEs that were survey in this study. However it should be noted that there seem to be a close correlation between the doing business rank and number of SMEs per inhabitant (Fjose, Green & Gruntfield, 2010). If the environment is less corrupt SME businesses are expected to grow more. Kanu (2015) also shared this sentiment that corruption increases operational and other costs and consequently the selling price making is difficult for the SME businesses to develop at a faster pace.

4.4.6 Lack of credit and financing facilities as a deterrent to SME growth

In addition to this, the study also sought the views of SME business the extent to which they think the general lack of credit and financing facilities is the reason for the slow growth of SMEs in Namibia in general and in Windhoek in particular.

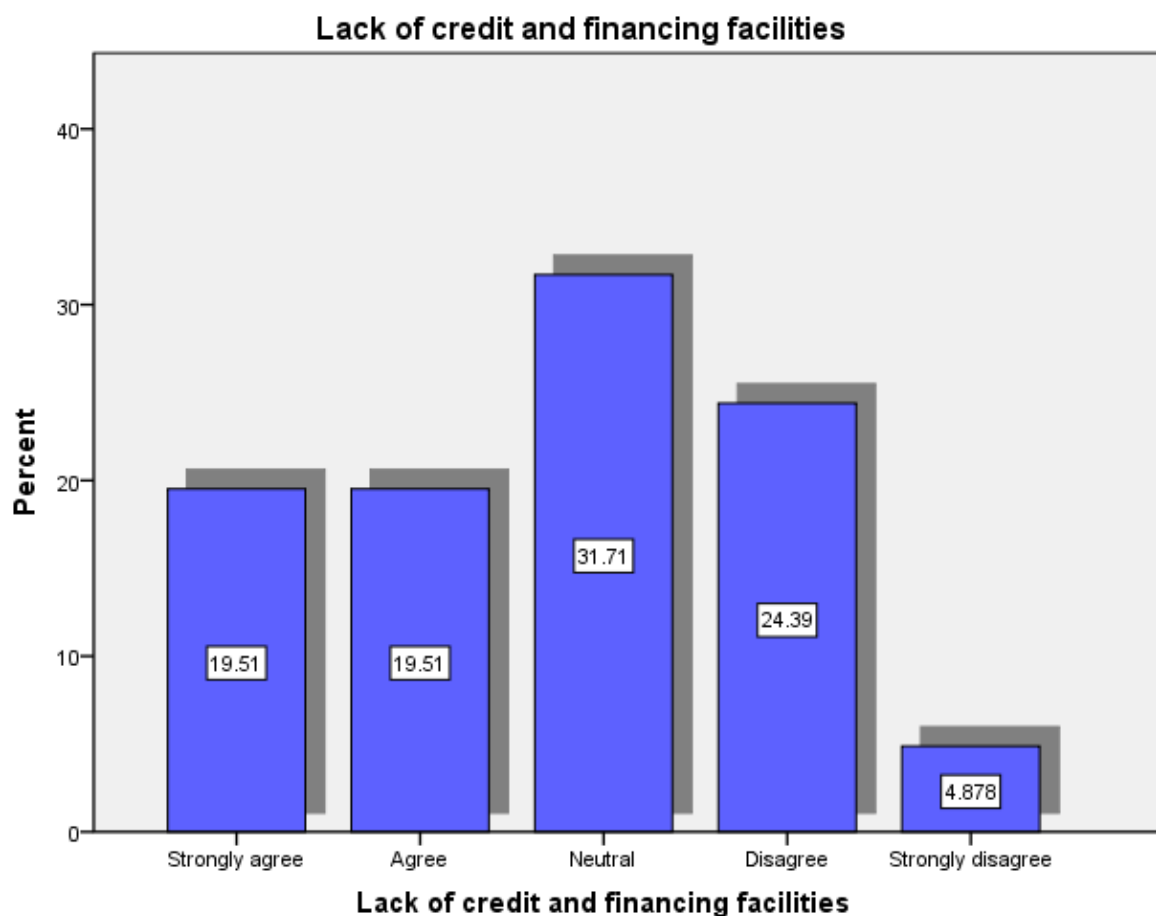


Figure 4.4: Lack of credit and financing facilities as a deterrent to SME growth

Source: Estimates from survey data, 2016

19.5% of the respondents as shown in Figure 4.4 below strongly agreed that their slow growth as SME businesses was attributed to the lack of credit and financing facilities in Windhoek, while the same amount of respondents (19.5%) also agreed that the lack of credit and financing facilities is one of the reasons that explains their slow growth. However, 31.7% of the respondents were indifferent as to whether the lack of credit and financing facilities was responsible for their slow growth. 24.4 per cent of the SMEs disagreed on the fact that the lack of credit and financing facilities were responsible for their slow growth and this view was further affirmed by 4.9% of the participating SMEs who strongly disagreed.

In terms of access to finance by SMEs, reviewed literature showed that credit application by SMEs were rejected by the banks and from this data it also shows that the challenge is also prevalent within the context of Katutura's Incubation Centre and Bokamoso Entrepreneurial Centre, suggesting a limited impact of DFIs on the growth and performance of SMEs in

Namibia. Aluko and Oke (2015) has supported this point that mostly financial institutions shy away to give credit to SMEs because of fear of them to fail.

4.4.7 Tax regimes and SME growth

Tax regimes were also assessed as one of the reasons that causes slow growth in SMEs. Table 4.9 below highlights respondents' responses to this question.

Table 4.9: Tax regimes and SME growth

	Frequency	Percent
Strongly agree	6	14.60%
Agree	9	22%
Neutral	7	17.10%
Disagree	13	31.70%
Strongly disagree	6	14.60%
Total	41	100

Source: Estimates from survey data, 2016

Table 4.9 above shows that 14.6% of the SMEs believe that their slow growth is attributed to the tax regimes prevailing in the country. An additional 22.0% also agreed, thus a combined 36.6% believed that the tax regimes were responsible for the slow growth of SMEs. 17.1% were neutral, while 31.7% disagreed on the effects of tax regimes with 14.6 % strongly disagreed over the fact that tax regimes were responsible for the slow growth of SME businesses.

4.4.8 Cost of funding from DFIs and SME growth

One of the thrust of this study was to assess how the cost of getting DFI funding affects SME growth.

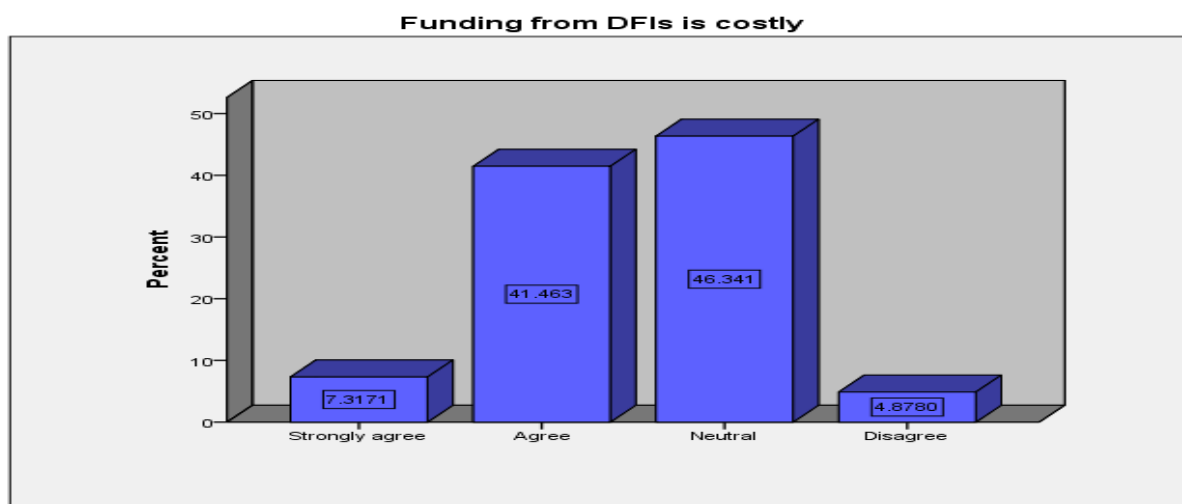


Figure 4.5: Cost of funding from DFIs and SME growth

Source: Estimates from survey data, 2016

Figure 4.5 above shows that 7.3 percent of the SMEs argued that they were not able to grow because the cost of getting funding from DFIs was too prohibitive for small players. Additionally, 41.5% of the SMEs agreed that the funding from DFIs was very costly and therefore affected their business growth and survival.

Therefore, a combined total of 48.8% of the SMEs who participated in this study argued that the funding from DFIs was very costly. 46.3 per cent of the SMEs were indifferent mainly because they never had a chance to borrow from the DFIs as presented earlier. The same goes for the 4.9% of the SMEs who disagreed. This is confirmed by Berger and Udell (1998, 2006) that SME lending is still considered a high-cost lending product. More specifically, unlike other lending products that can be reduced to simple transactions, SME lending often still depends heavily on relationships between borrowers and lenders.

4.7 SME strategies for growth

The survey also asked SMEs to respond to questions regarding the nature and kind of strategies that they consider key in terms of improving the status of their SME businesses. Table 4.10 below shows presents the results of this question.

Table 4.10: Strategic SME management skills

	Frequency	Percent
Strongly agree	13	31.70%
Agree	16	39%
Neutral	9	22%
Disagree	2	4.90%
Strongly disagree	1	2.40%
Total	41	100%

Source: Estimates from survey data, 2016

Table 4.10 above shows that in terms of SME management skills as a strategy, a combined 70.7% agreed and strongly agreed that this is one of the strategic areas that SMEs needs to look at as they seek to improve their business operations. 22.0% of the SMEs were neutral on the need to have strategic SME management skills while those who disagreed were 4.9% of the sample. 2.4% of the SMEs strongly disagreed on the need to have strategic SME management skills. As highlighted by other authors, Babafemi and Adesheye (2015) has reaffirmed that lack of management skills and experience have a bearing effect on the success of an SME and thus it is access to financing.

Table 4.11: Equipment and technology

	Frequency	Percent
Strongly agree	20	48.80%
Agree	18	43.90%
Neutral	1	2.40%
Strongly disagree	2	4.90%
Total	41	100%

Source: Estimates from survey data, 2016

In terms of equipment and technology as strategic resources, Table 4.11 below shows that a combined 92.7% of the SMEs both agreed and strongly agreed on the need of having equipment and technology for competitiveness. 2.4% of the sample was indifferent while 4.9% of the SMEs that were sampled for this survey strongly disagreed on the fact that equipment and technology are strategic resources that SMEs can use in Namibia to improve the status of their

operations and build competitive business ventures. This is in line with what Abor (2011) found out that mostly SMEs find it difficult to obtain appropriate technology and information on available techniques. Lack of appropriate technology will humper the growth of SME businesses.

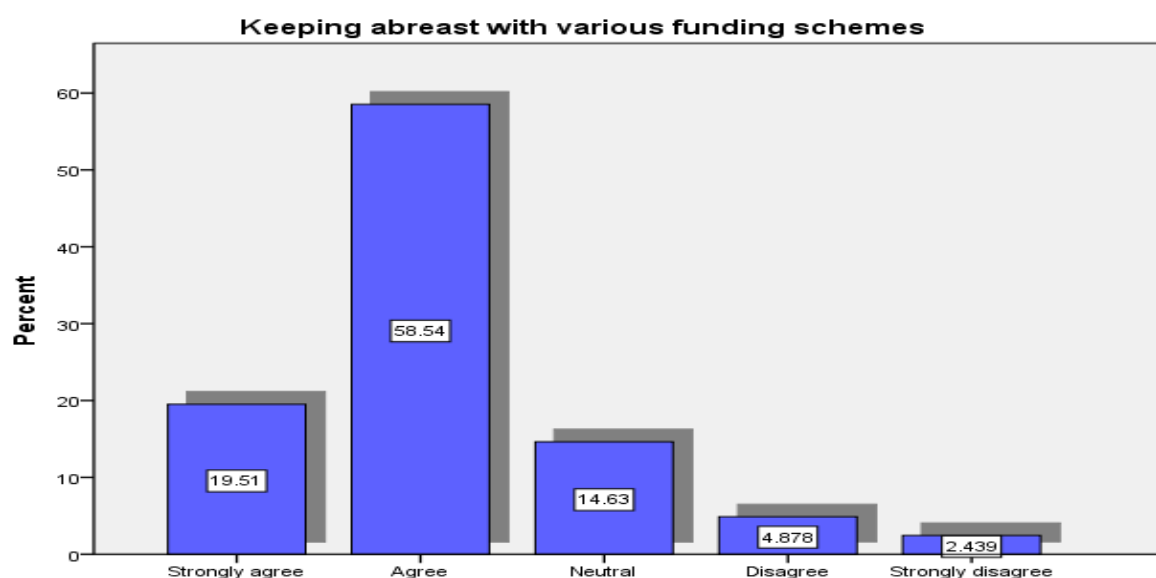


Figure 4.6: Keeping abreast of DFI Funding Schemes

Source: Estimates from survey data, 2016

It was also found that, for SMEs in Namibia to improve and build competitive ventures, there is a need for the SMEs to keep abreast with the various funding schemes that are available for SME business. Figure 4.6 shows that 19.5% of the SMEs that participated in this study argued that, it is quite strategic for SMEs to be aware of the funding schemes that are available for SMEs than just relying on the traditional SME loans and bank overdrafts. This view was also supported by 58.5% of the SMEs who agreed on this strategy as they seek to build formidable business ventures. Those who chose to be neutral on this strategic point were 14.6% of the sample. 4.9% and 2.4% disagreed and strongly disagreed respectively.

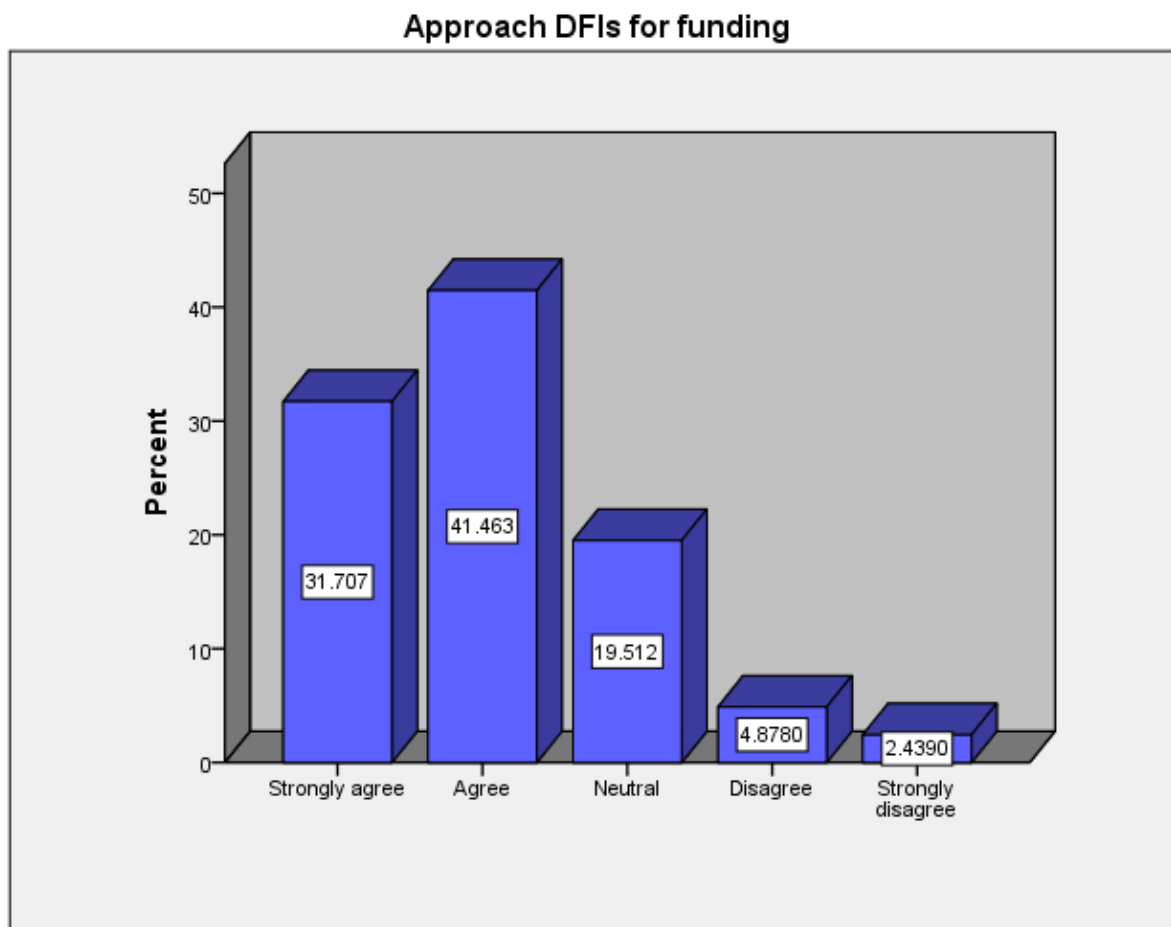


Figure 4.7: Approaching DFIs for funding as a growth strategy

Source: Estimates from survey data, 2016

It also emerged in this survey that, SMEs must also consider approaching DFIs for funding as a strategic move that will enhance their chances for success in the business. When asked whether approaching DFIs was a strategy that SMEs would use to build competitive business ventures, 31.7% of the respondents as shown in Figure 4.7 below strongly agree on the need to approach DFIs for funding. In addition to this, 41.5% of the SMEs also agreed that approaching DFIs would strategically help them to build competitive businesses. However, 19.5% of the SMEs were indifferent as to the effect of approaching DFIs for funding would make in relation to improving their statuses as SME businesses. 4.9% of the SMEs that participated in this survey disagreed on the fact that approaching DFIs would bring competitiveness into the status of their SME business operations and this view was further shared by 2.4% of the SMEs who strongly disagreed as shown in Figure 4.7 above. Since mostly SMEs only have access to limited funds like from their limited savings, accessing finance from DFIs will significantly grow these businesses (Kauffmann, 2005).

Section C: Strategies for improving

4.8 DFI strategies

The survey asked respondents to provide strategies that must be implemented by DFIs to help develop and grow SMEs into competitive businesses. The study identified the need to reduce collateral requirements, funding awareness, monitoring and mentoring funded SMEs, reduction of interest charges on loans as well as providing sufficient funds as key strategies for improving SMEs' growth (see Figures 4.8 – 4.9 below. Figure 4.8 below presents the views of SMEs in relation to the need to reduce collateral requirements for SMEs.

4.8.1 SMEs owners' views on reduction of collateral requirements

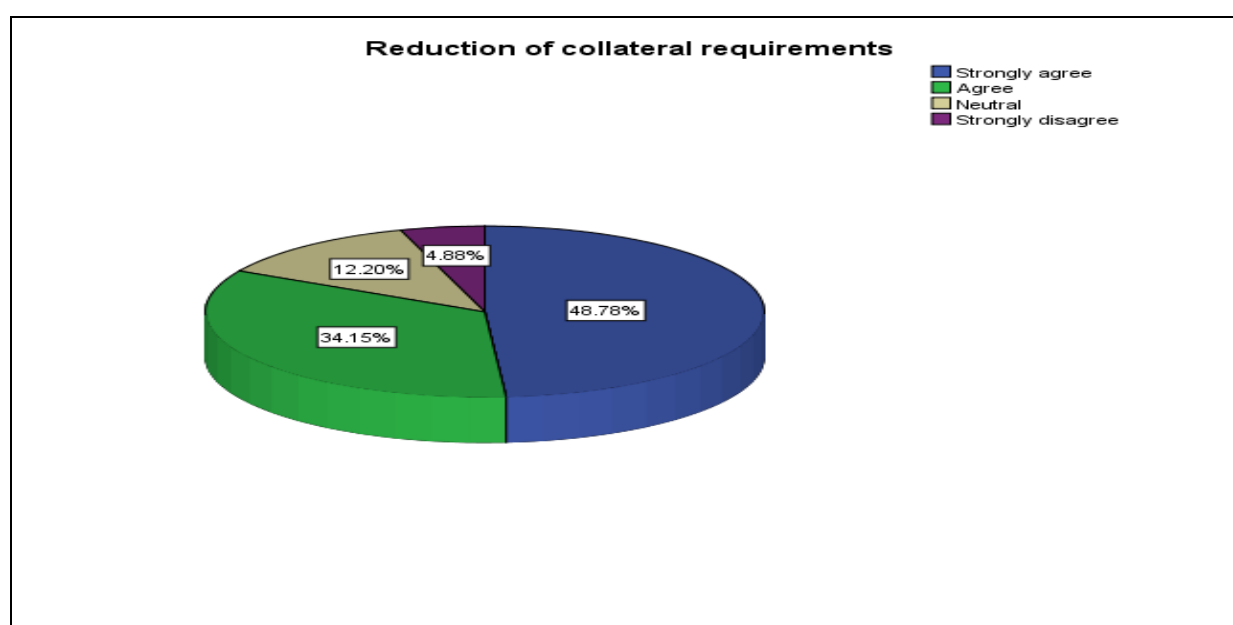


Figure 4.8: SMEs owners' views on reduction of collateral requirements

Source: Estimates from survey data, 2016

48.9 % of the SMEs strongly agreed on the need for DFIs and other financing institutions to reduce the collateral requirements that they ask from SMEs before granting them with business loans. 34.2 % also agreed on the need to reduce collateral requirements for SMEs. 12.2 % of the respondents chose to be neutral with 4.9% being in the strongly disagree category.

4.8.2 SMEs owners' views on reduction of interest charges on SME loans

Figure 4.9 below presents that the perceptions of SMEs owners regarding the reduction of interest on loans made to SMEs.

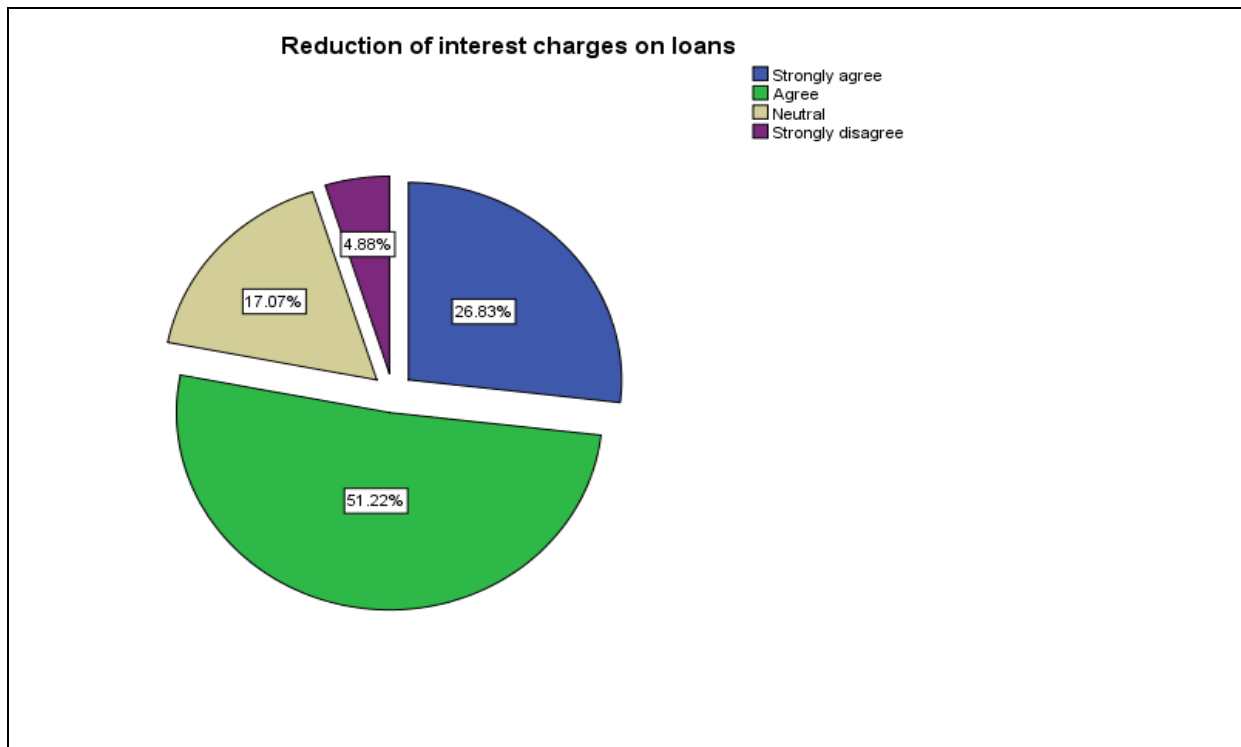


Figure 4.9: SMEs' views on reduction of interest charges on SME loans

Source: Estimates from survey data, 2016

51.2 % agreed that for SMEs to be competitive, the cost of finance must be lowered. This view was further compounded by 26.8% of the SMEs that strongly agreed on the need to reduce the cost of borrowing if stakeholders such as DFIs are committed in making SMEs competitive and help the economy grow. However, 17.1% were indifferent on whether or not, the reduction of cost of capital has an effect on the development and growth of SMEs into competitive ventures. Those who strongly opposed the need for the reduction of the cost of borrowing were 4.9% of the sample.

4.8.3 Views of SMEs on funding awareness

One of the strategies that is required and must be implemented by DFIs as part of helping SMEs grow is the need to create funding awareness among SMEs.

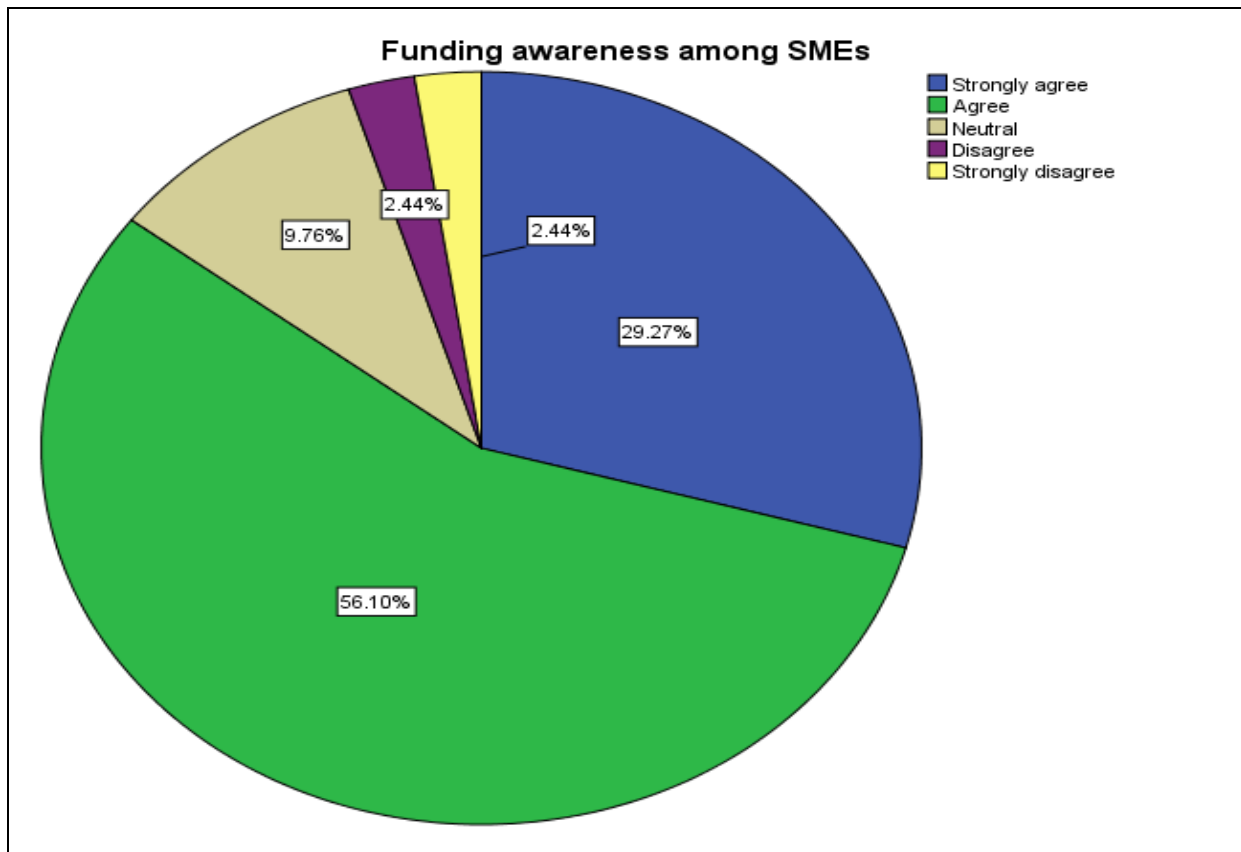


Figure 4:10: Views of SMEs on funding awareness

Source: Estimates from survey data, 2016

Figure 4.10 above shows that 56.1% of respondents agreed that awareness was necessary as they seek to build competitive business ventures. 29.3 strongly agreed on the need for funding awareness by DFIs as this will improve the access to information and funding requirements on part of the SMEs. 9.8% of the respondents were neutral, while 2.4% of the SMEs disagreed and never saw the need for such awareness and how it will help SMEs to develop and grow. This view was further exacerbated by 2.4% of the sample who strongly disagreed on the effect funding awareness will have on the development and growth of SMEs into competitive businesses. The European Commission document (2017) has clearly supported this finding that the access to finding is also associated with lack of knowledge of available instrumnets to the SME businesses. Many SMEs do not shop around when seeking finance; empirical research suggests that convenience, time and effort are important factors for explaining SME funding choices.

4.8.4 Views of SMEs on the sufficiency of SME funding

The lack of finance is well documented in the literature as one of the reasons why SMEs fail to grow. Figure 4.11 below shows the views and perceptions of what SMEs think DFIs must do in helping SMEs to find their feet.

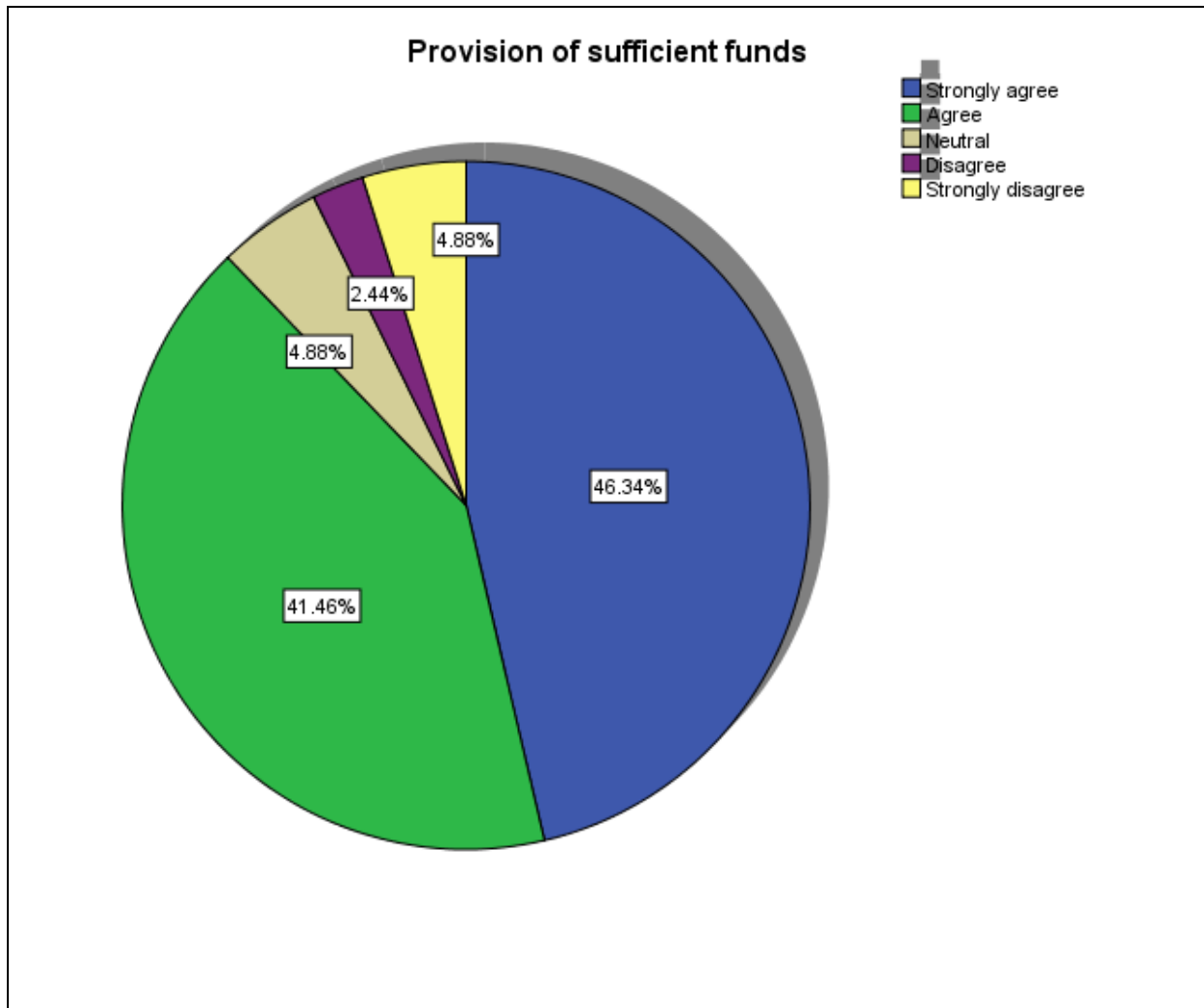


Figure 4.11: Views of SMEs on the sufficiency of SME funding

Source: Estimates from survey data, 2016

41.5% agreed that, funds for SMEs were not enough and there was an urgent need for DFIs to increase the funding for SMEs, if they are to grow and develop into competitive business ventures. This view was further aggravated by 46.3% of the SMEs that strongly agreed on the need for DFIs to increase their funding for SMEs. However, 4.9% of the respondents chose to be indifferent while 2.4% disagreed on the need to increase funding and this could be attributed to them not having any funded projects from DFIs. In addition to this, 4.9% also strongly

disagreed on the fact that DFI funding for SMEs must be increased as a way of helping SMEs to grow and develop into competitive businesses.

4.9 DFI interventions in the SME Sector

This section reports the findings of data collected from the SME Bank. The study found out that the SME Bank reserved N\$1.5 billion for SME development in 2016. The study also found that in and in 2014 and 2015 the SME Bank released about N\$18 million and N\$142 million in loan respectively.

The amount issued in 2015 clearly shows that the support for the development of SMEs by the DFI is growing. Additionally, it is important to note that findings from this study showed that out of 600 applications for SME funding, only 100 were successful, representing 16,67% success rate for 2014, and this also explains the fact that finance for SME is difficult to access. In 2015, the success rate of getting financial support for the SMEs from the SME Bank was still the same despite having received 3000 applications (500 were successful) and this also explains the reason why SMEs think DFIs must reduce their collateral requirements.

The SME bank considers funding of SMEs to be too risky and they require comprehensive collateral security and well-crafted business plans. The data collected from the DFI showed that, adequate resources must be availed to DFIs for the benefit of SME funding. In addition to this, the DFI also agrees on the need to generate awareness and financial inclusion if SMEs are to grow into big ventures that will help the economy. Training and mentorship programmes should be availed to SMEs to enable them to be aware of financial and banking principles which will improve their investment practices, capital management and growth as well as wealth creation. However, most of the SME funding from the SME bank has gone into the retail, transport and logistics as well as the construction sector of the Namibian economy.

4.10 Conclusion

This chapter represented the data in the chart and the graphs format. From the above analysis of data obtained, it is quite clear that there are many factors that affect the development and growth of SMEs at Katutura's Incubation Centre and Bokamoso Entrepreneurial Centres in

Windhoek, Namibia and the factors found in this study are consistent with the findings and information that was reviewed in chapter 2 of this mini dissertation.

These factors call for implementation of more strategies to be able to assistance the SME as they grow into bigger enterprises. These factors include, but limited to, level the playing field in competitions, availing credit facilities, availing information to the SMEs, reducing the collateral required and other related factors

CHAPTER 5

CONCLUSIONS AND RECOMMENDATIONS OF THE STUDY

5.1 Introduction

The purpose of this study was to investigate the impact of development finance institutions on the growth of SMEs in Windhoek, Namibia using Katutura Incubation and Bokamoso Entrepreneurial Centres as a case studies. The results of this study enables individuals who would like to establish small and medium enterprises business and those who are currently running SMEs business to develop a deep cognizance of the factors that adversely hamper and affect the development and performance of SMEs and business in general. It also helps the DFIs in reviewing their policies and perceptions of the challenges that SMEs face.

5.2 Conclusions

The objective of this study to examine the impacts of DFI on the performance of SMEs, focussing mainly on the SMEs that are located at Katutura's Incubation Centre and Bokamoso Entrepreneurial Centre in Windhoek. The study also sought to analyse some of the factors that negatively affect the development and performance of SMEs in Windhoek. Thus, the importance of this study was to provide DFIs and SMEs with a greater understanding on the impacts of development finance on the performance of SMEs and its contributions to the local economy via the multiplier concept. This understanding is critical in understanding the effect of development finance and the factors that militate against their development and growth with the intention of helping them to reduce the risk of failure and inherently increase chances of success.

The study concludes that SME registration with the Ministry of Industrialisation Trade and SME development is easy given that the study's participants were all registered. There are many advantages that SMEs enjoy when they are registered such as the provision of start-up capital and funding among other benefits. Registered SMEs are able to vie for public tenders, and open a bank account, gain access to credit facilities from the suppliers, given permit in various industries. However, the study concludes that, while development finance correlate with an increased SME performance, the access of such funds from DFIs is difficult to obtain in the context of the surveyed SMEs.

The findings from the analysis of the research data revealed that in terms of financial resources, SMEs are experiencing difficulties in getting access to credit facilities. SMEs in Namibia find it difficult to acquire loans from development finance institutions. It was also revealed that, the DFIs and other credit finance providers; often required collateral, extensive businesses plans, standard financial statements as well as a proven track record of repaying their debts (good bank rating,) and these are things that most SMEs do not have easy access to or knowledge about. SMEs find it difficult to provide collateral and they also revealed that the cost of credit on the funds borrowed is high. In addition to this, the study also found out that, the cost of borrowing by SMEs from DFIs is relatively expensive and a majority of the SMEs cannot afford such financing.

The most popular and know type of DFI assistance that was found in this study, which is SME loan. A majority of the SMEs only borrowed SME loans and overdrafts as they seek to grow and develop their businesses into competitive ventures. However, what was a more worrying finding was that, a majority of the SMEs have never borrowed anything from the DFIs and the commercial banks in Windhoek for their business development and expansion plans.

It is imperative to note that, for SMEs in Namibia to improve and build competitive ventures, there is need for the SMEs to keep abreast with the various funding schemes that are available for SME business. It also emerged in this survey that, SMEs must also consider approaching DFIs for funding as a strategic move that will enhance their chances for success in the business. The survey also asked respondents to discuss the strategies that must be implemented by DFIs in an attempt to help SMEs in their quest to progressively develop and grow into competitive businesses. The key themes and strategies that were noted in this study as part of the findings include the need to reduce collateral requirements, funding awareness, monitoring and mentoring funded SMEs, reduction of interest charges on loans as well as providing sufficient funds for SMEs growth.

It was also found out that one of the most recent factors that are affecting the development of SMEs is corruption. The SMEs indicated that corruption negatively affect their progress in the awarding of public tenders, and loan financing DFIs and commercial banks. In most cases favouritism, bribery, fraudulent, political affiliation, lobbying, is highly being practiced to benefit from such activities. The corruption activities in the system make it difficult for all SMEs to perform effectively and efficiently. Therefore SMEs that happened to penetrate the

corruption system remain the beneficiary of available resources meant for all SMEs. The SMEs indicated that corruption is still an obstacle for business to acquire permits for transportation, mining permits, fishing quarter permits, after normal hour liquor license. Therefore the SMEs find it difficult to diversify their business due to inability to acquire permits, which is believed to be surrounded by corruption.

5.3 Recommendations of the study

In order to improve the state of doing business in Namibia, DFIs must give SMEs some incentives such as low tax rebates and cost of borrowings as this will increase the access to funding. In addition to this, there is also need for DFIs to carry out funding awareness programmes with SMEs and their various stakeholders. Additionally, there is need for SMEs to be made aware of the various funding schemes and performance rubrics and DFIs must facilitate the training of such things among SMEs.

The management skills require a greater study, as entrepreneurs often lack the business skills required to run a business successful. As a result they often run into issues when it comes to determining whether or not their business idea is viable as well as how much or even if it is making a profit on a regular basis. Therefore financial literacy programmes need to be used as a platform to undress the issues about the management of companies' finances among the existing, new or potential entrepreneurs of SMEs. It should also be introduced in primary schools in order to form a strong foundation of financial management at the tender age, because primary and secondary school drop outs are the one who establish SMEs the most, for survival purposes.

Development finance institutions should provide adequate information regarding the accessibility to credit and finance to the existing, new or potential entrepreneurs. The Bank of Namibia should review the interest rates on loan because it seems to be very high; otherwise the government should find amicable solutions either to subsidize the SMEs with sort of incentives and rebates, as a way of promoting them. Development finance institutions (DFIs, commercial banks and Risk cover organizations) should provide trainings to the youth, existing, new or potential entrepreneurs about investments or risk cover policies like life cover, which can be used as collateral in the absence of fixed cash in the bank.

5.5 Suggestions for further studies

This study was a preliminary descriptive and exploratory research to examine the impact of development finance on the performance of SMEs at Katutura's Incubation Centre and Bokamoso Entrepreneurial centre in Windhoek. Thus, it will be impractical to generalise the findings in other locations in Windhoek and other cities across the country, hence it is crucial for future research to conduct similar studies in other suburbs and cities. In addition to this, issues of the cost of capital and SME performance require further research.

Each attribution examined deserves a greater research attention on its own in order to find out at what degree it can impact on business performance. Identifying the other contribution factors of each attribution and how they could be addressed is also proposed for further research. This would provide more information which could enable the entrepreneur to be in complete control of their business activities and to make better decisions that would enable further growth in their day to day business activities, be it financially, diversification or in service delivery.

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Appendix 1A.

Survey Questionnaire University of Cape Town Questionnaire for SMEs



My name is Sem Hasheela, currently pursuing a Master's degree in Commerce (Development Finance). As part of my program, I am required to carry out a research.

My research topic is on the **Impact of Development Finance Institutions on the growth of SMEs in Windhoek, Namibia**. This is why I am approaching you as an SME operating in Windhoek.

Thus I would kindly request you to answer the questions in the attached questionnaire. No participant's details will be taken, thus no one will know who provided which answer, therefore will remain anonymous and responses will be treated with confidentiality. The participation in this study is voluntary and the participants can withdraw at any time without fear, however I am please counting on your cooperation.

You are please welcome to contact me to make your participation in this study comfortable. You may contact me at 0812569105. Please answer as accurately as possible.

With this explanation above, will you be available to participate in this survey? **Please circle your choice, Yes/No.**

Thank you very much for taking time to complete this questionnaire. Your responses will be treated with confidentiality.

SECTION A

1. Type of ownership for your business (Please tick the correct answer)

Type	Description	Response tick(✓)
Sole trader	A business owned by one person	
Partnership	Two to twenty owners and members share responsibilities.	

Close corporation cc	One to ten members, members may not be involved in daily management.	
Other (please explain)		

2. For how long have you been in this business? -----

3. Indicate, by a tick(√), your business' annual income or revenue

N\$1-200 000		N\$200 001- N\$400 000		N\$400 001- 600 000		N\$600 001- 800 000		N\$800 001 and more	
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4. How many employees do you currently have in your business? -----

5. What sector does your business fall into

Sector	Tick (√)	Sector	Tick (√)
Consultant		Carpentry and Wood Joinery	
Tourism		Car Mechanic	
Catering		Marketing	
Construction		Food(e.g. restaurant)	
Welding		Financial services	
ICT		Panel beating and spray	
Clothing		Cleaning	
Transport and logistics		Retail	
Kapana		Other	

6. Are you registered with the Ministry of Industrialisation, Trade and SME Development? Indicate your answer with a **Yes/No**.

7. Where do you sell your business products or services?(e.g. Windhoek, All over Namibia, Export to other countries-state the country where you export) -----

SECTION B: Impacts of DFIs on SME Development

1. Have you ever received funding from a Development Finance Institutions (DFIs) (i.e. SME Bank or Development Bank of Namibia)? Yes/No

2. Have you received funding from commercial banks like Bank Windhoek, FNB, Standard Bank to Finance your business? -----
3. If you have received any financial assistance from DFIs/Commercial Bank, please indicate the name of the institution and the amount N\$ -----

4. If granted, when was it given to you? -----
5. Was the financial assistance sufficient? -----
6. What type of assistance did you receive from DFIs (Please tick the appropriate box)

Type of assistance	Response (✓)
SME loan	
Private equity	
Impact funds	
Basic insurance products for SMEs	
Seed Capital	
Aftercare support services to SMEs	
Grant(No need to pay back)	
Franchise Finance	
None	
Other(specify)	

7. For each of the following Statements, place a tick in the box that closely corresponds to how you feel:
 - 1 Strongly Agree
 - 2 Agree
 - 3 Neutral
 - 4 Disagree
 - 5 Strongly Disagree

Views on DFI assistance to SMEs	Scale (√ responses)				
Assistance from DFIs has been helpful to my SME	1	2	3	4	5
SMEs assistance has helped increase my sales (i.e. Volume of transactions).	1	2	3	4	5
SMEs assistance has helped increase my revenue (i.e. Amount of money collected).	1	2	3	4	5
SMEs assistance has helped increase my profits (i.e. financial gain after paying for expenses).	1	2	3	4	5
It is easy for my SME to access Funds from DFIs	1	2	3	4	5

8. For each of the following statements, place a tick in the box that closely corresponds to how you feel in relation to the reasons that are responsible for the slow or lack of growth of SMEs in Windhoek:

- 1 Strongly Agree
- 2 Agree
- 3 Neutral
- 4 Disagree
- 5 Strongly Disagree

Reason for slow growth	Scale (√ responses)				
Economic framework(policies) in which SMEs operate	1	2	3	4	5
High Corruption level	1	2	3	4	5
Lack of credit and financing facilities	1	2	3	4	5
Lack of access to financing	1	2	3	4	5
Unfavourable tax regimes,	1	2	3	4	5
Complicated rules and regulation frameworks	1	2	3	4	5

Bureaucracy on processing of applications at DFIs	1	2	3	4	5
Funding from DFIs is very costly to SMEs	1	2	3	4	5
Lack of information to access funds from DFIs	1	2	3	4	5

9. Indicate other reasons responsible for the slow or lack of SME growth in Windhoek-Namibia

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Section C

1. Indicate by a tick how the following strategies would improve the status of your SMEs in your locations. Use the same scale from Section B, Question 7 and 8.

Strategies	Scale (✓ responses)				
Improve SMEs management skills and operate professionally	1	2	3	4	5
Acquire right equipment and technology	1	2	3	4	5
State to improve relevant policies	1	2	3	4	5
Access international market	1	2	3	4	5
Understand business operation and the market	1	2	3	4	5
Keep abreast with various funding schemes	1	2	3	4	5
Approach DFIs for funding	1	2	3	4	5
Others(specify below)	1	2	3	4	5

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2. What are your opinions about SMEs contribution to the national economic growth?

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3. What are your suggestions for SMEs to be able to grow in your location?

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4. What strategies can be implemented by DFIs to help SMEs to progressively develop and grow into competitive businesses? Use the same scale from Section B Question 7 and 8.

DFI Strategies	Scale (✓ responses)				
Reduce the collateral required	1	2	3	4	5
Create funding awareness among the SMEs	1	2	3	4	5
Monitor and mentor the funded SMEs to avoid failing	1	2	3	4	5
Reduce the interest charges on loans	1	2	3	4	5
Provide sufficient funds	1	2	3	4	5
Others(specify below)	1	2	3	4	5

Appendix 1B

Thank you for your time
Survey Questionnaire
University of Cape Town
Interview guide for DFIs



My name is Sem Hasheela, I am currently pursuing a Master's degree in Commerce (Development Finance). As part of my program, I am required to carry out a research. My research topic is on the **Impact of Development Finance Institutions on the growth of SMEs in Windhoek, Namibia.**

To collect the information I will ask the participants questions. I will not take the participant's details, thus no one will know who provided which answer therefore will remain anonymous and treat response with confidentiality. The participation in this study is voluntary and the participants can withdraw at any time without fear.

You are please welcome to ask any question that will make your participation in this study comfortable. Please answer as accurately as possible

With this explanation above, will you be available to participate in this 30 minutes discussion?

Thank you so much for taking time to complete this questionnaire. Your responses will be treated with confidentiality.

SECTION A

1. Name of the DFI.....
2. How much have you reserved for SMEs growth in this year? N\$.....
3. How much have you disbursed out for SMEs in the past five years?

Year	2011	2012	2013	2014	2015
Amount(N\$)					

4. How many applications for funding have you received in the past five years?

Year	2011	2012	2013	2014	2015
App.					

5. What is the average success rate (%) of applicants for SME funding in your institution?

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6. How does demand for SME funding compared with demand for other loans in your bank?

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SECTION B: Impacts of DFIs on SME Development

For each of the following Statements, place a tick in the box that closely corresponds to how you feel:

1 Strongly Agree

2 Agree

3 Neutral

4 Disagree

5 Strongly Disagree

1.	We have a high average success rate for SME funding applicants	1	2	3	4	5
2.	The beneficiaries of our SME funding have been able to increase their sales, revenue and profits.	1	2	3	4	5
3.	SMEs are on average able to access DFIs in Windhoek(Namibia)	1	2	3	4	5
4.	SME failure in Windhoek has nothing to do with access to funding	1	2	3	4	5
5.	There is a positive relationship between DFI support and SME growth in Windhoek in relation to sales, revenue and profits	1	2	3	4	5
6.	There is enough funding to support SME growth in Namibia	1	2	3	4	5
7.	Lack of knowledge of SMEs make it difficult for the DFIs to finance SMEs.	1	2	3	4	5
8.	SMEs are too risky, thus lack of willingness to finance	1	2	3	4	5

Section C

- What do you think can be done to stimulate and enhance considerable use of SME funding?

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- Which sector has received the most of your SME funding?

Sector	Tick	Sector	Tick
Consulting		Carpentry and Joinery	
Tourism		Car Mechanic(Engineering)	
Catering		Marketing	
Construction		Food(e.g. restaurant)	

Welding		Financial services	
ICT		Educational services	
Clothing		Cleaning	
Transport and logistics		Retail	
		Other	
		

3. Any suggestions on what you think can be done to improve SMEs as far as funding is concerned?

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4. What can be done to improve the performance of SMEs in Windhoek (Namibia) generally to enable them to play a major role in economic development?

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The end